S. HRG. 99-269

CARGO PREFERENCE LAWS

HEARING

BEFORE THE

SUBCOMMITTEE ON MERCHANT MARINE

OF THE

COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION UNITED STATES SENATE

NINETY-NINTH CONGRESS

FIRST SESSION

ON

S. 664

TO FACILITATE THE COMPETITIVENESS OF EXPORTS OF UNITED STATES AGRICULTURAL COMMODITIES

MAY 6, 1985

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CARGO PREFERENCE LAWS

MONDAY, MAY 6, 1985

U.S. SENATE,
COMMITTEE ON COMMERCE, SCIENCE AND TRANSPORTATION,
SUBCOMMITTEE ON MERCHANT MARINE,
Washington, DC.

The subcommittee met, pursuant to notice, at 10 a.m., in room SR-232, Russell Senate Office Building, Hon. Ted Stevens (chairman of the subcommittee) presiding.

Staff members assigned to this hearing: David Dye, staff counsel; and John D. Hardy, minority staff counsel.

OPENING STATEMENT BY SENATOR STEVENS

Senator STEVENS. This is the time we have set for the foreign cargo preference.

The Merchant Marine Subcommittee is meeting this morning to consider S. 664 and other proposals to limit the application of the cargo preference laws to Government agricultural export programs.

A number of anticargo preference bills were introduced in both the House and Senate following a decision by Federal District Judge June L. Green, which overturned the administration's refusal to apply cargo preference requirements to USDA's Blended Credit Program. Immediately following this decision USDA suspended all shipments under the program even though they were not required to do so by the lawsuit. On April 3, 1985, Secretary of Agriculture John Block held a press conference to purportedly announce the administration's support for the goals of certain of these anticargo-preference bills, all of which go way beyond the Blended Credit Program in their assaults on cargo preference. On the same day Transportation Secretary Elizabeth Dole announced that the administration would appeal the court case but was not presently supporting such legislation. Since then, the administration has in fact appealed the case.

Unfortunately, the whole blended credit issue has generated far more smoke and heat than light, including personal attacks on Judge Green. That aside, there are several misapprehensions that need clarification. The first of these is that the blended credit decision expanded the scope of the cargo preference laws. The only reason the maritime industry wasn't carrying blended credit cargo was that USDA was violating Federal law by refusing to reserve cargoes for U.S. ships. USDA's argument that the court expanded the law is similar to that of a person who cheats on his taxes, then

complains, when caught and punished, that the scope of the tax laws has somehow been expanded.

There is also a misconception that the lawsuit required USDA to suspend the Blended Credit Program. This is not true. USDA unilaterally chose to suspend the program rather than comply with the court's order to ship 50 percent of the commodities on U.S.-flag vessels, as required by statute. To my knowledge, USDA has never stated that it lacks the necessary funds to comply.

Another incorrect notion is that the decision applies cargo preference requirements to commercial export sales of agricultural commodities. The court found that USDA's extension of interest-free credit on up to 20 percent of each sale and additional guarantees against risk of nonpayment to U.S. exporters made these sales concessional rather than commercial by definition. In fact, USDA's own internal documents conceded that the Blended Credit Program could not be viewed as commercial in nature.

Perhaps the most unfair statement that some have made is that cargo preference requirements reduce farmer's incomes or make it more difficult for American farmers to export their commodities. The Government pays any differential between the prevailing foreign-flag shipping rate and a reasonable U.S.-flag rate. Neither the farmers nor the foreign importer pays one cent because of cargo preference.

All of these misconceptions aside, we need to recognize that cargo preference is one of the important ways that Congress has chosen to ensure that this country has a viable merchant marine for both commercial and national defense purposes. Let us not forget that one of the primary reasons for even having a Navy is to protect our ability to deliver the people and resources necessary to protect our freedoms beyond our own shores. World War II, and more recently the Falkland Islands conflict, proved that it is absolutely essential to have an adequate U.S.-flag fleet.

We also need our farmers and the harvest of abundance that they have brought to this country. But we must keep this in perspective. The amount that the Government will spend in fiscal year 1985 for cargo preference constitutes less than eight-tenths of 1 percent of the $18.44 billion the Government expects to spend in 1985 on farm income stabilization. We should not cripple a small but essential industry in order to confer a dubious benefit to a giant industry which is already swollen with taxpayers support.

Cargo preference is the small price that the American taxpayer pays to ensure that we have an American fleet to rely on when it is needed. To quote a 1904 House report recalling problems caused by a lack of American merchant auxiliaries in the Spanish-American war: "It is never safe or wise to depend on foreigners for the defense of our own country. Our dependence must always be on our own sea and ships to uphold the honor and dignity of our flag in the time of extremity." Those words are as true today as when written.

Do you have an opening statement, Senator Inouye?

OPENING STATEMENT BY SENATOR INOUYE

Senator INOUYE. I also have a statement, Mr. Chairman.

In my view the issue before the subcommittee today is quite straightforward.

Should we further jeopardize our fourth arm of defense and our national security by seriously undermining one of the programs essential for the survival of the U.S. merchant marine?

The Construction Differential Subsidy Program has been eliminated; ODS is on its way out; and now we are faced with proposals to diminish substantially the only other program for subsidizing our international merchant fleet.

To get some idea of just how essential cargo preference is to the fleet's survival, I would like to cite some statistics from reports of the Maritime Administration and GAO.

In 1980, U.S.-flag vessels only carried 4.7 percent of the cargo that moved in our international trade.

And 11.8 percent of that amount was carried because of the Cargo Preference Act of 1954. And if DOD cargo carried under the 1904 Preference Act is included, that 11.8 percent becomes 30 to 40 percent.

A GAO report estimated that in the year of 1980, as many as 33 additional ships and 2,200 additional workers were used to transport cargo dependent on preference cargo laws.

In 1983, U.S.-flag vessels carried 5.8 percent of the cargo that moved in our international trades.

And 39.8 percent of that amount was carried because of the Cargo Preference Act. Again, if DOD cargo were included, over 50 percent of the cargo carried by U.S. flags was due to the preference laws.

Had USDA complied with even the minimal requirements of the Cargo Preference Act with respect to the commodities that it did ship under the Blended Credit Program between 1982–85, there would have been an opportunity for employment for 20 to 25 U.S.-flag vessels.

I realize the sponsors of the proposals we are considering today do not want to do anything which would jeopardize our national security. I can also appreciate their concern for our agricultural interests.

But I do not think we should "throw the baby out with the bath water."

Our cargo preference laws reflect a general procurement policy. They apply across the board, not just to agricultural commodities. The Department of Defense ships cargo under those laws; and other agencies, such as NASA; TVA; Treasury; GSA; DOT; DOE; and the Eximbank are also subject to them. So we are not singling out agriculture to bear the burden of supporting the U.S. merchant marine.

Those who criticize our cargo preference laws might do well to consider what would happen to our agricultural exports promotion programs, if the U.S. merchant marine disappeared. Our agricultural exports would then be at the mercy of foreign flags whose only concern would be "what is in it for them"—economically or politically.

Finally, I would like to correct the misapprehension that cargo preference reduces the money available to purchase agricultural products for the various export programs.

Since 1954, whenever Congress has appropriated funds for an agriculture program to which cargo preference applies, it has done so with the clear understanding that a small percentage of those funds is intended not to assist the agricultural industry, but to assist the U.S. merchant marine, by ensuring that at least 50 percent of the cargo shipped under that program is shipped on U.S. flags.

For example, when Congress appropriates *x* dollars to be used for a blended credit program, the amount it appropriates for the purchase of the agricultural commodities is not *x* dollars, but *x* dollars minus the cost of transportation including the ocean freight differential incurred in ensuring that at least 50 percent moves on U.S. flags.

Moreover, if we were to separate these transportation costs and put them in DOT's budget, as some advocate, logically we should then correspondingly reduce the amount of money appropriated to the Department of Agriculture.

So I fail to understand how cargo preference reduces the amount of money available to purchase agricultural commodities.

Senator STEVENS. Do you have an opening statement, Senator Danforth?

OPENING STATEMENT BY THE CHAIRMAN

The CHAIRMAN. Let me state at the outset that I am no friend of cargo preference legislation. I know this is a departure from the position held by previous chairmen of this committee, but the issue is one about which I feel strongly.

Cargo preference is bad for American exports. It is bad for farmers. It is bad for Missouri. At its worst, it takes food from the hungry, by reducing the amount of wheat we ship to the starving in Africa or wherever there is need.

The recent decision by U.S. District Court Judge June Green to subject the Blended Credit Program to cargo preference requirements is particularly galling. At a time when farmers all across the Midwest are going broke, at a time when our trade deficit has hit $123 billion, this decision has torpedoed half a billion dollars in confirmed export sales.

I am a cosponsor of Senator Nickles' legislation—as I am of the legislation introduced by Senators Boren and Boschwitz and referred to the Committee on Agriculture—to overturn Judge Green's decision. I am eager to see quick action on this point. I appreciate their willingness to delay any floor action on their proposals until after this morning's hearing. Such consideration by this committee can lay the groundwork for further action.

The cargo preference laws require that 50 percent of Government-impelled cargo be carried on U.S.-flag ships if and when available at fair and reasonable rates. Unfortunately, fair and reasonable rates are not the same as competitive world rates, and recent improvements notwithstanding, U.S. vessels are not available at rates equal to those of foreign-flag ships.

The difference in cost is absorbed by the various Federal agencies who are directed by law to use U.S.-flag shipping. In the case of agricultural exports, the Department of Agriculture must divert

funds authorized and appropriated by Congress for agricultural export programs to pay for the high transportation costs. Thus, the objectives of Congress in enacting and funding food export programs are subverted. Our efforts to create new markets for our farmers, to feed the world's hungry people, and to reduce America's trade deficit become subservient to subsidizing our merchant marine.

My goal is not to cause the demise of the U.S. merchant marine; on the contrary, I would prefer a healthy merchant marine that does not require a subsidy to compete. My goal, rather, is to reduce the transportation costs for agricultural exports in order to increase the amount of food we send abroad.

There is more than one way to reduce those costs. The General Accounting Office reported recently that the Department of Agriculture may be paying substantially higher ocean freight rates than necessary. GAO concluded:

> Agriculture lacks sufficient involvement with and control over the bidding and negotiation process. Foreign countries or their agents have no incentive to negotiate lower U.S. flag transportation rates, and Agriculture has inadequate procedures and controls to insure the integrity of the process. Also, Agriculture needs to better manage its responsibilities for complying with cargo preference requirements, approving vessel selections arranged by foreign countries, and calculating Ocean Freight Differential payments.
>
> The Maritime Administration assists Agriculture by calculating a fair and reasonable rate (based on cost and profit) which is the maximum transportation rate that a U.S.-flag vessel can receive for a voyage. Maritime inadequately assures that each vessel's transportation rate does not exceed a fair and reasonable rate.

Very simply, better management can reduce the Government's transportation costs. Forcing shipping companies to bid competitively for a predetermined package of voyages to the Mideast, rather than single one-way movements, has cut U.S.-flag freight rates for grain in half over the past two years. Competitive bidding for long-term charters has also provided substantial savings for the Navy's Military Sealift Command, which applies similar cargo preference laws to military cargo. Competitive bidding can separate the truly competitive U.S.-flag vessels from old, inefficient, and sometimes unsafe ships which have in the past made the cargo preference program such an expensive burden. I hope that our witnesses can suggest other ways to reduce these costs.

I would like to charge today's witnesses to be creative about ways to move all agricultural exports, including preference cargoes, at lower cost. Failure to do so will only intensify the drive to eliminate or radically reduce the scope of the cargo preference program.

Senator Kassebaum has asked me to have her statement included in the record.

[The statement and bill follows:]

OPENING STATEMENT BY SENATOR KASSEBAUM

Mr. Chairman I am pleased the Subcommittee on Merchant Marine is holding this hearing to examine legislation regarding the Cargo Preference Act. I support the two Senate bills, S. 664 and S. 721, to exempt commercial export activities of the Commodity Credit Corporation and U.S. Department of Agriculture, including the blended credit program, requirements of the Cargo Preference Act.

The USDA and CCC agree that cargo preference is applicable to U.S. donation and foreign aid programs which provide concessional terms. In addition, prior to February of this year, both have followed the guidelines of a 1963 Department of Justice opinion exempting direct credit and credit guarantee programs from the 50

percent U.S.-flag vessel cargo preference rule. Since the 1982 announcement of the commercial blended credit program, USDA and CCC believed the Cargo Preference Act did not apply.

The recent U.S. District Court decision to apply cargo preference to blended credit is an unprecedented expansion of that Act into commercial programs of USDA. The application of cargo preference to these programs negates their competitive effects and has led the Secretary of Agriculture to suspend those blended credit sales. More than three million metric tons of grain exports that would have been sold abroad have been affected by this court decision.

The economic stability of U.S. agriculture and other industries is dependent on competitive international trade. Aggressive export programs are essential. It has been a frustrating fact of life for our wheat and grain farmers that a strong U.S. dollar and world economic conditions have nearly priced their commodities out of world markets.

According to the Agency for International Development, the additional costs of shipping on U.S.-flag vessels under P.L. 480 were $77.6 million in 1983; $97.5 million in 1984; and are estimted to be more than $118.3 million in 1985. The additional government subsidies required by applying cargo preference to blended credit program will be $40 to $50 million this year. If GSM-102 becomes subject to cargo preference, $125 million will be needed for additional shipping costs.

Those representing the merchant marine continually state that cargo preference requirements do not cost the farmer one cent. However, it is clear that cargo preference reduced the effectiveness of programs designed by Congress and initiated by USDA to buy surplus commodities from farmers and export them to other nations on affordable terms. Foreign countries are unwilling or unable to pay the additional costs of shipping on U.S. flag vessels. Consequently, the additional costs are borne by USDA. These costs, which effectively subsidize the U.S. maritime industry, are charged to USDA's budget and cut into the limited funds USDA has available to operate these programs. As a result, we sell less wheat and grain to other nations. That directly hurts farmers.

I see the need for a strong domestic maritime industry. As an item of national security, however, that cost should be borne by all Americans. In 1983, 40 percent of the total tonnage carried on U.S.-flag vessels was a direct result of the Cargo Preference Act. This is an increase of almost 30 percent since 1980. Now the U.S. merchant marine has been granted an increased subsidy due to Judge Green's decision on blended credit programs.

At some point Congress must say enough is enough. I urge quick action to overturn this ruling and exempt CCC and USDA commercial export activities from cargo preference requirements.

99TH CONGRESS
1ST SESSION

S. 664

To facilitate the competitiveness of exports of United States agricultural commodities.

IN THE SENATE OF THE UNITED STATES

MARCH 14 (legislative day, FEBRUARY 18), 1985

Mr. NICKLES (for himself and Mr. ABDNOR) introduced the following bill; which was read twice and referred to the Committee on Commerce, Science, and Transportation

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A BILL

To facilitate the competitiveness of exports of United States agricultural commodities.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That (a) except as provided in subsection (b), section 901 of the Merchant Marine Act, 1936 (46 U.S.C. 1241) and the joint resolution of March 26, 1934 (48 Stat. 500, 46 U.S.C. 1241–1), (commonly referred to as the "cargo preference laws") shall not apply to export activities of the Commodity Credit Corporation or the Department of Agriculture under which—

(1) stocks of agricultural commodities or the products thereof acquired by the Commodity Credit Corporation are made available to United States exporters, users, or foreign purchasers, for the maintenance or expansion of commercial export markets for United States agricultural commodities or the products thereof;

(2) commercial credit guarantees are blended with direct interest-free credits from the Commodity Credit Corporation to reduce the effective rate of interest on export sales of United States agricultural commodities or products thereof; or

(3) the Commodity Credit Corporation or the Department of Agriculture promotes commercial exports of United States agricultural commodities or products thereof.

(b) Subsection (a) shall not apply to any export activity undertaken for the purpose of complying with the terms of an agreement entered into before the date of enactment of this Act.

Senator STEVENS. Our first witness is Senator Nickles.

STATEMENT OF HON. DON NICKLES, U.S. SENATOR FROM OKLAHOMA

Senator NICKLES. Thank you, Mr. Chairman.

I will ask that my statement be entered in the record.

I have been before the subcommittee before a couple of years ago testifying, in my opinion, on the ills of cargo preference and certainly to the extent that cargo preference should not be expanded legislatively. Now it seems because of a Federal district court judge's ruling, we have a tremendous expansion of cargo preference, not legislative expansion, but a judicial expansion, one which I find very detrimental to my State; I think very detrimental to agriculture as a whole.

I don't have to tell this committee the dilemma or the doldrums that the agricultural industry is in today. Agriculture, as you know, Mr. Chairman, is dependent on exports. In my State alone, we export about 80 percent of the wheat, the Hard Red Winter wheat. It is an export crop.

Actually we export something like 1.4 billion bushels of wheat. We only consume domestically 1 billion bushels.

In Oklahoma we export 80 percent of our wheat. It does not take anyone long to find out that exports are critical to agriculture's survival. The judge's decision which expanded the cargo preference requirement to the Blended Credit Program has resulted in the suspension of $536 million worth of commodity sales that were destined for Egypt, Morocco, Tunisia and other countries.

Those sales are still, basically sitting on the docks. We have not fulfilled those. At least we hadn't the last I heard, and I don't expect we will unless we get the court ruling repealed.

I have introduced legislation, S. 664, Senator Boschwitz has introduced comparable legislation, referred to the Agriculture Committee. We have previously testified before that committee.

The effect of S. 664 would be to remove the cargo preference requirement on any commercial agricultural exports, except for the present Public Law 480 program. We didn't touch the Public Law 480 program in that bill. The Public Law 480 program would still have cargo preference requirements. Public Law 480 shipments are increasing. So, the subsidies and payments that will be going to the maritime industry will also be increasing.

Under present law it is estimated that we will be increasing shipments under the Public Law 480 program something like 34 percent this year. Likewise those subsidies and payments that will be going to the maritime industry will also be increasing, without being expanded to the Blended Credit Program. I think that is awfully important.

S. 664 is one piece of legislation that I think we should pass this year. It is my hope that we will be able to pass it this year.

I have also introduced, so that the chairman and other committee members would know where this Senator is coming from, S. 930 which would remove cargo preference requirements on all agriculture exports. Again, it is my hope and desire that we will be successful in passing that legislation, but it is my belief that our best

bet would be to keep the cargo preference law from not being expanded to the Blended Credit Program.

That will be our effort and we will be looking for a vehicle at the earliest appropriate time to see that cargo preference not be expanded.

I will mention, too, that according to the USDA, applying cargo preference to the Blended Credit Program would increase the merchant marine subsidy $40 to $50 million. If you apply the cargo preference program to the $5 billion GSM-102 program, you would be increasing their subsidy by an additional $650 million.

Quite frankly, I don't think the taxpayer can afford it. I don't think the agriculture industry of our country can afford it. So, I hope that one of these two pieces of legislation will be successful.

Mr. Chairman and members of the committee, I appreciate you holding this hearing. I look forward to reviewing some of the statements that are made today and I am hopeful that we will be able to accommodate legislation this year.

Senator STEVENS. My good friend, I have to tell you, you know, I have always supported the Farm Program. It is now up to about $18 billion, I think. The total cost of this program, even with the blended cargo, would be less than $750 million. It is the last viable program for the merchant marine.

Now, is the farm community willing to stand the loss of those who supported the agricultural programs in the past in order to shut off this program?

Senator NICKLES. Mr. Chairman, let me turn that around. We have an agricultural community. We have a million farmers. You can tell me the number of companies involved, but there are probably 15 or 20 companies involved receiving significant benefits. Some of these companies last year were receiving $8, $9, $10 million.

We don't have that in the agricultural community today. We have a $50,000 limitation on benefits per farmer. So, we are talking about millions of people basically versus probably 20 companies.

Again, as I told the Chairman, under S. 664, Public Law 480 would still be covered under the cargo preference requirement. So, they are going to be receiving like a 30-percent increase in subsidy payments this year alone even if our first bill should pass.

So, we are asking agriculture, and the chairman is aware of this, to take some pretty hard licks in the budget. They are asked to recieve less. You mentioned $18 billion as the cost of farm programs. I think the figure under the present law, in 1985 is estimated to be $15 billion. We are asking them to take a 20 percent cut in total payment. We are asking the farmers to take a cut.

The judge's ruling would allow cargo preference to be applied to programs that it had never been applied to, so the merchant marine would receive even greater subsidies, over the increased subsidies they would be getting because Public Law 480 shipments are increasing.

Senator STEVENS. My State and the Senator from Hawaii's State are two States that are offshore. Under Federal law the only ships that can carry freight between our States and the mainland are ships that are built in U.S. shipyards, manned and operate by U.S. interests.

In other words, the Jones Act requires that individual Alaskans pay the rate for maintaining those ships. The cargo preference law you say that the taxpayers as a whole pay the differential between the cost of foreign-flag and U.S.-flag shipping in order to maintain this last remnant of international shipping that operates under the U.S. laws.

I don't quite understand the reaction in the farming community to the decision which placed no additional burden on the farm community, but admittedly faces about a $50 million additional burden on the taxpayer.

Our people in Hawaii and Alaska bear that burden already to maintain U.S. shipping. Why should the farm community raise so much of a hue and cry over this decision which is extending a law that was passed in the interest of national defense to maintain this shipping?

To my knowledge, there is no other law that is still viable to help us maintain the residue of domestic shipping capacity that we need in the interest of national defense. Yet if your bill is successful even that will disappear. The only thing we will have left will be the Jones Act shipping.

Senator NICKLES. The Senator is correct. I have two bills, one would basically overturn the judge's decision and not allow cargo preference to apply the Blended Credit Program. The cost of that incremental part is $50 million a year—$40 to $50 million per year.

The expanded interpretation of the judge's ruling could apply to the GSM-102 Program which could cost another $650 million a year. Again, we are making some tough decisions. I hope we are going to make some tough decisions concerning the budget. We have some serious deficit problems.

So, this is not the time to have massive increases in subsidies going to 15 or 20 shiplines. I find it abhorrent when I looked down and saw several companies were making $8, $9, $10 million. When you realize that if this judge's ruling goes through, that will be increased. When you realize the Public Law 480 Program will be increased this year by 34 percent, instead of getting a subsidy of $8, $9, or $10 million, they will be getting $10, $11, or $12 million. Then, if it is expanded to the GSM-102 Program, you are going to take another $650 million and divide it among a few companies.

I find that abhorrent. I expect to do everything I can to see that that doesn't happen.

Then you ask the question, why is agriculture so concerned about the expansion of this program. Yes, granted the taxpayers are to be picking up the expense.

One, a lot of people in agriculture would like to be taxpayers, but they have not made a profit. When they see that the cost of this program can be anywhere from 25 cents up to $1 a bushel, you start figuring that, and when the farmer has been working and he maybe makes $3 a bushel and finds a subsidy to shippers of maybe 80 cents to $1, I think they have a good reason to be outraged.

Senator STEVENS. We will have discussions along that line, I am sure. My support for the agriculture community subsidies is really going to be determined by the outcome of this argument.

I cannot ever remember voting against agricultural subsidies, but if the agriculture community is so concerned that they want to

destroy the merchant marine we have left, then I think the rest of us ought to be concerned about the $15 to $18 billion that is going to the farm community.

The Senator from Hawaii.

Senator INOUYE. Thank you, Mr. Chairman.

I would just like to make two observations. I am certain my distinguished friend agrees with me that the cargo preference laws apply across the board, not just to Agriculture; but they apply to DOD, NASA, TVA, et cetera. So, it is not a case of picking on the agriculture evidently.

Second, since 1954, the Congress of the United States, when appropriating funds for agriculture progress to which cargo preference laws applied, has always intended that a small percentage of that amount be spent to ensure that at least 50 percent of the cargo move on U.S. flag vessels. I am certain you will agree with that because that has been the record since 1954.

Third, I am certain my friend is aware that right up to World War II—this is the 40th anniversary—we ruled the seas. If you wanted to ship anything, you came to the United States. Today, we carry less than 5 percent of our international trade.

Construction differential subsidy is out. Operating differential subsidy is on its way out. And cargo perfernece is a third so-called subsidy program. If that goes out, I would say that we would then have to ship our goods on foreign flags.

It is true today foreign flags may be cheaper than American flags, but I am certain you will agree with me it won't take too long for our foreign allies to realize this is a good market and we will be paying through our noses. This is why the Department of Defense looks upon the merchant fleet as the fourth arm of defense and has always supported it.

I would hope that my friend from an agricultural State would also look upon this kindly. As you know, from day one I have always supported agriculture. I am a member of the farm block; we have sugar. So, I know what it is to be from an agricultural State.

As my chairman has pointed out, in addition to that, we have the so-called Jones Act on our back. So, I hope you will think a little kindly about the merchant fleet because without that, I think we are in real trouble. Right now if we have all the ships together, we may be able to supply our troops for 3 weeks. That is about it.

The Russian fleet could supply theirs for 2 years. That is the difference.

Thank you.

Senator NICKLES. Thank you.

Senator STEVENS. The Senator form Virginia.

Senator TRIBLE. Thank you, Mr. Chairman.

I welcome my colleague from Oklahoma. He speaks with force on behalf of his farmers. I must tell you that in Virginia we have farmers and we also have maritime interests. To me it is a more difficult kind of issue.

I believe we need to have a viable farming community. At the same time I recognize America is an island nation heavily dependent on the world for its economic well-being. We have to export our products and you can't export grain in planes, you have to have ships.

We also have to import critical and strategic raw materials from around the world in order to assure our economic vigor and our military might—that requires ships—and not rely on foreign ships to meet its interests.

Like so many issues I would suggest to my friend and colleague that this is not cut and dried, black and white. This is an important issue on all sides. Anyone, be he representative of farmers alone or farmers and other economic interests, has to recognize the importance of a strong maritime presence to our economic health and our future security.

Let me ask you just one question and that is this: What is your view on the Block-USDA decision to suspend funded credit sales? Can you support that suspension or is it your view that it ought to be lifted at this juncture?

Senator NICKLES. I will tell the Senator I think it is important, and I think by his suspension he is basically focusing attention exactly on this issue.

Can we afford cargo preference on the Blended Credit Program? I agree with Secretary Block 100 percent, we cannot. He has stated basically he was not going to ship those commodities, $536 million, almost all of it wheat, I believe, probably a good percentage of that from my State.

I would hate to see that shipment postponed for any reason. I also for the same reason, being very concerned about the deficit, don't want to see us paying an extra $40 or $50 million to ship that wheat either.

So, we are caught in a dilemma. I know that the members of this committee are also concerned about the deficits and deficits, in my opinion, the high interest rates that result and the strong dollar are really our No. 1 problem.

Senator Stevens and others talk about agriculture, and so forth. I think the best way we can help agriculture is not just through agriculture subsidies and possibly the same thing with the maritime industry, but by getting these interest rates down. To get them down, we have to cut deficits.

I think Secretary Block has taken a strong position and probably the right one. This cargo preference issue needs to be resolved. If he just started writing checks to CCC to finance this, I expect you would see the expansion of the program, probably see it expanded to all the agriculture export programs, 5 billion dollars' worth, that would be another $650 million in maritime subsidies.

I don't think taxpayers can afford that, I don't think farmers can afford it. So, it needs to be resolved and I hope it will be resolved in short order.

Senator TRIBLE. Probably, it is not likely it will be resolved in short order given the way the Congress works.

Is it your view that that suspension should be sustained until Congress works its will?

Senator NICKLES. I think Congress needs to work its will and change our patterns. It is my hope that once we resolve the budget issue, the Congress will have a chance, at least in the Senate and I can tell you also we have been communicating with Members in the House, to put this on a quicker track. We have support from

the administration as well. So, I hope that we don't have a different group hold up these types of sales.

I hope that we can get this issue resolved in very quick order and see the grain shipped and have this problem in question of cargo preference application resolved.

I need to respond to Senator Inouye, he is my good friend. He said agriculture should not be picked out and cargo preferrence applies to DOD imports and shipments, and the Senator is correct.

But the judge's decision applies to USDA's Blended Credit Program, a program that cargo preference had never been applied to before. So, agriculture was picked out. It was singled out. That decision expanded cargo preference to a category of ships that had not happened before.

The thrust of what I am saying is let us at least not see this requirement expanded. The maritime subsidies could increase strictly with Public Law 480 shipments from agriculture. I would hope that we would limit cargo preference shipments.

I will compliment the chairman as he has indicated a willingness to try to resolve this in some amiable manner and I appreciate that, one consideration might be and one that I would certainly support would be to get the cost of this away from the CCC program and put it into the Maritime Administration or put it under DOD.

I continually hear the argument that we need cargo preference for defense purposes. Let us put it under Department of Defense, don't put it under CCC.

Senator INOUYE. May I make a comment?

Senator STEVENS. Senator Inouye.

Senator INOUYE. Isn't it true on at least 12 occasions beteen October 1982 and July 1983 the Department of Transportation took the position that the Cargo Preference Act applied to the Blended Credit Program?

Senator NICKLES. The Department of Transportation did?

Senator INOUYE. Yes.

Senator NICKLES. I don't know regarding that period of time. I know the Department of Transportation is now trying to overturn this decision in the courts. I think that that is a correct motive.

I also think we need a legislative remedy as well. Whichever track would be quickest is the one that needs to be pursued.

Senator INOUYE. I believe when the admiral comes up he will testify that that was the position of MARAD; and that even after DOT said it would not apply cargo preference to the specific blended cargo program, the agency still said the cargo prefernece laws did apply I believe that is the official Government position.

Senator NICKLES. I can tell my good friend from Hawaii and we have a letter and I will submit it for the record, that Secretary Block has stated his support for the legislation.

[The letter follows:]

DEPARTMENT OF AGRICULTURE,
OFFICE OF THE SECRETARY,
Washington, DC., April 3, 1985.

Hon. DON NICKLES,
U.S. Senate,
Washington, DC.

DEAR DON: This is to inform you of the Department of Agriculture's position on your bill, S. 664, a bill "To promote the competitiveness of exports of United States agricultural products."

The Department supports enactment of the bill.

The bill provides for an exemption from section 901 of the Merchant Marine Act of 1936 (46 U.S.C. 1241) and the Joint Resolution of March 26, 1934 (48 Stat. 500, 46 U.S.C. 1241-1) for all export activities of the Commodity Credit Corporation (CCC) or the Department of Agriculture (USDA) which promote commerical exports of United States agricultural commodities or products thereof. The bill would not exempt food assistance programs, such as food assistance under the Agricultural Trade and Development Assistance Act of 1954 (P.L. 480) and Section 416 of the Agricultural Act of 1949 as amended, or programs of other agencies, such as the direct loan programs of the Export Import Bank.

Application of cargo preference to export promotion programs of the CCC or USDA would cause higher budgetary outlays, reduce competitiveness for U.S. agricultural exports at a critical time, and increase difficulty in administering the programs. Under the original Blended Credit Program, the cost to CCC for foregoing interest on the GSM-5 portion was estimated at $4 per $100 of program value spread over three years. If cargo preference were applied, the cost of the program would increase to $12 per $100 of program value spread over three years. In addition, approximately 80 percent of that cost would be required as an immediate initial outlay.

The total cost of cargo preference through payments of ocean freight differentials for the current Blended Credit Program would be between $40 and $50 million. The cost of applying cargo preference to the existing FY 85 level of the GSM-102 program would be prohibitive.

The expansion of cargo preference to cover these additional programs also raises serious problems as to the difficulties of ensuring against fraud and abuse in administering the ocean freight differential payments and the availability of appropriate U.S. flag vessels.

The Office of Management and Budget advises that there is no objection to the presentation of this report from the standpoint of the Administration's program.

Sincerely,

JACK, *Secretary.*

Senator NICKLES. As the Senator, I am sure, is aware, the Department of Transportation has also joined in the suit and is trying to reverse this court decision.

Mr. Chairman, thank you very much for your willingness in letting me participate in today's hearing.

Senator STEVENS. It is always nice to see you my friend.

Senator NICKLES. Mr. Chairman, I have a statement from Mr. Wilcox of the National Association of Stevedors that I would like to have inserted at the conclusion of my statement.

Senator STEVENS. Yes, we will be happy to insert it in the record in the proper palce.

Any other Member of Congress here who wishes to testify?

[The statement follows:]

STATEMENT OF HON. DON NICKLES, U.S. SENATOR FROM OKLAHOMA

Mr. Chairman, it is my pleasure to appear before the committee today to present testimony on S. 664, a bill I introduced March 14 to increase the competitiveness of U.S. agricultural exports.

This legislation is designed to overturn a February 21, 1985, U.S. District court ruling which has resulted in the suspension of $536 million worth of agricultural export credit sales. Additionally, it would protect commercial export activities of the Commodity Credit Corporation (CCC) or the U.S. Department of Agriculture

(USDA). The bill's companion measure in the House is H.R. 1517, which was introduced by Congresswoman Virginia Smith of Nebraska. The bill states that cargo preference laws shall not apply to agricultural exports under which——

(1) CCC stocks are used to maintain or expand commercial export markets for U.S. agricultural commodities;

(2) commercial credit guarantees are blended with direct interest-free credit to reduce interest rates on export sales of U.S. agricultural commodities;

(3) export activities of the CCC or USDA are aimed at promoting commercial exports of U.S. agricultural commodities.

As USDA undersecretary Daniel Amstutz stated in the Senate Agriculture Committee hearing on S. 721, commercial exports include those moved under the GSM-5 and GSM-102 export programs.

Mr. Chairman, as you know, we are currently battling with the federal budget deficits—trying to bring government spending in line. In doing so, federal financial assistance for many programs and industries is being scaled down, not increased as the merchant marine has arranged for themselves through the courts.

Farm programs, student aid, mass transit, rural electric and telephone, impact aid and soil and water conservation are just a few examples of areas that have been targeted for spending reductions. Many of these programs are important to me and my state of Oklahoma. I cannot sit idly by and let a judge increase the merchant marine's subsidy while other programs are falling under close congressional scrutiny.

According to USDA, applying cargo preference to the blended credit program would increase the merchant marine's subsidy $40-$50 million. Applying cargo preference to the $5 billion GSM-102 guarantee program could increase their susbsidy by an additional $650 million.

I strongly feel merchant marine subsidies should be above the table, under the eyes of Congress, and should come from the Department of Defense or the Department of Transportation. They should not be tucked away as a hidden expense in the agriculture budget.

I thank the chairman for the opportunity to appear before the committee on this important piece of legislation.

Senator STEVENS. Our first witness then is Admiral Shear.

STATEMENT OF ADM. HAROLD E. SHEAR, ADMINISTRATOR, MARITIME ADMINISTRATION, DEPARTMENT OF TRANSPORTATION, ACCOMPANIED BY GARRETT BROWN, AND GARY MISCH

Admiral SHEAR. Good morning, Mr. Chairman.

Senator STEVENS. Good morning, Admiral. It is nice to have you back with us again.

Admiral SHEAR. Thank you.

As you know, I am the Maritime Administrator. I am accompanied this morning by my staff, Mr. Garrett Brown and Mr. Gary Misch.

I want to thank you for the opportunity to present the administration's views with respect to cargo preference requirements under U.S. law and to comment on S. 664 and certain other bills.

There has been a lot of interest in this issue in recent days in the aftermath of the district court decision in *Transportation Institute* v. *Dole*. That decision found the Department of Agriculture's so-called Blended Credit Program was subject to cargo preference requirements. Both maritime and agricultural interests have reacted strongly.

There have also been statements—perhaps at times confusing statements—from representatives of the administration concerning this matter. I hope my remarks this morning will serve to clarify the views of the administration with respect to these events.

Cargo preference requirements must be considered within the context of our maritime policy as a whole. Since the outset of this

administration, President Reagan has been committed to the reversal of the decline in our merchant marine industry and to the development of an industry that is capable of meeting the Nation's economic and defense needs.

In contrast to the steady decline in competitiveness and the related steady increase in dependence on subsidies which had for many years characterized the U.S. maritime industry, we are now entering a new era of vigorous, aggressive competition for cargo in world markets.

This administration has worked to eliminate unnecessary regulations adversely affecting the shipping and shipbuilding industries. An example of these efforts was our support for the Shipping Act of 1984 which governs liner shipping in our foreign trades.

We have sought extension of the authority for subsidized operators to acquire their ships abroad. As a result of the temporary authority to "build foreign" in effect during fiscal year 1982, U.S. operators are now taking delivery of some of the best and most competitive diesel-powered liner and bulk ships.

We have also proposed that U.S. operators that acquire new ships abroad be immediately eligible to carry preference cargoes.

These measures have enabled U.S. operators to seize the initiative in our foreign commerce and to aggressively seek to increase the U.S. share of our foreign trade cargoes. With modern, competitive ships, costs have been reduced and the level of operating subsidies has been declining.

The cost reduction is demonstrated by the dramatic 41 percent decline in the cost differential for carriage of agricultural commodities by U.S.-flag carriers in the years 1981–84. It would fall still further if our proposals were enacted.

As you are aware, these dramatic improvements in the economic efficiency of the maritime industry benefit all concerned. The industry's reliance upon direct subsidies is reduced. Exporters and other users of U.S. flag ocean shipping services benefit. The cost per ton to the Government of U.S. flag carriage for Government-sponsored exports under programs like the Department of Agriculture's [USDA] Public Law 480 program has declined.

We realize the great importance of U.S. farm exports. We also realize that neither agricultural interests nor maritime interests benefit if the cost of U.S. carriage detracts from our ability to reach foreign markets. There is room for further improvement. Greater efficiency in Government agency handling of the bidding and negotiating process for ocean shipping services can reduce costs even further and we are preparing specific proposals for further cost reduction in this area.

At the same time that our merchant marine industry is becoming less dependent on direct subisidies, the administration recognizes the importance of our cargo preference laws in providing needed support of the merchant marine as a vital element of our seaborne defense capability.

In 1982, then Secretary of Transportation, Drew Lewis, reaffirmed this administration's support for the Jones Act and for existing cargo preference laws covering U.S. flag carriage of Government-impelled cargoes. That policy has not changed.

It continues to be the position of this administration that we support the existing cargo preference laws as interpreted prior to the district court decision, and that those laws should neither be expanded nor contracted. These laws require that all military cargoes be carried in U.S. ships and 50 percent of Government-sponsored cargoes be carried in U.S.-flag commercial ships, when such ships are available at fair and reasonable rates.

Each agency administers its own shipping activities, and the Maritime Administration monitors and assists these agencies in their compliance with the preference requirements. The Maritime Administration reports annually to Congress on the cargo preference compliance status of all Government shipper agencies.

As I have noted, great strides have been made in modernizing the U.S.-flag fleet and reducing the cost differential with foreign competitors, but there remains and will remain somewhat higher costs for using U.S. ships, primarily in the bulk services, due to the higher standard of living in the United States.

Added costs for using U.S.-flag vessels for agricultural exports under cargo preference are paid by the Government shipper agency and, in some cases, by the recipient countries. For example, USDA pays the cost differential for its Public Law 480, title I, Food for Peace Program. USDA also generally pays full ocean transportation costs for donations of agricultural stocks.

At this point, Mr. Chairman, I would like to address USDA's Blended Credit Program, an export promotion program, that began in fiscal year 1983.

As you know, the program consisted of loan guarantees of commercial credit for approximately 80 percent of the commodity's value, "blended" with interest-free direct Government loans of approximately 20 percent of the value. The net effect was a financing package competitive with world market levels. We originally estimated that the program would generate approximately 5.5 million metric tons during 3 fiscal years. Approximately 90 to 95 percent of the shipments was expected to be classified as bulk cargo shipments.

In early 1983, Secretaries Dole and Block held a series of discussions concerning the applicability of cargo preference requirements to the Blended Credit Program. It became apparent that the cost of U.S.-flag carriage for cargoes shipped under the program would completely offset the benefits of the program, to the point where exporters would no longer be likely to avail themselves of the program's promotional incentives.

We at the time estimated that the additional costs involved in reserving 50 percent of the blended credit cargoes to U.S.-flag ships would have been approximately $116 million.

In response to this action, the Transportation Institute and the Joint Maritime Congress filed suit on October 14, 1983, against the Secretary of Transportation and the Secretary of Agriculture, seeking to force the Government to apply cargo preference.

On February 21, 1985, the Federal district court decided in favor of the plaintiffs, ruling that cargo preference should be applied to the Blended Credit Program.

In response, USDA indefinitely suspended the Blended Credit Program last month. We estimate that the balance of cargo to be

shipped under this program is approximately 3.6 million metric tons valued at $536 million.

The appropriate response to the district court decision has been considered at the highest levels of the Government. It has been decided to appeal the decision. As I stated before, the administration's policy is neither to expand nor contract the scope of the cargo preference laws.

Mr. Chairman, that concludes my prepared statement. I will be pleased to answer any questions that you or the members of the subcommittee may have.

Senator STEVENS. I have just one question.

In your statement you made this comment:

> It became apparent that the costs of U.S.-flag carriage for cargoes shipped under the program would completely offset the benefits of the program, to the point where exporters would no longer be likely to avail themselves of the program's promotion incentives.

Why would the cost to the Government to increase costs $50 million, you say it could be up to $116 million—why would that actual cost to the Government be a disincentive as far as the exporters are concerned?

Admiral SHEAR. The point is, Mr. Chairman, the Blended Credit Program as such with the added cost of cargo preference for U.S.-flag vessels.

Senator STEVENS. That is the cost to the Government, not to the exporters?

Admiral SHEAR. That would increase the overall cost such that the exporters' blended credit would not be attractive to international purchasers.

Senator STEVENS. The purchaser is not going to pay it. The taxpayers are going to pay it. By definition, there is no increased cost because the USDA was ordered to pick up the differential between the cost of U.S.-flag vessels and the cost of foreign-flag vessels.

Admiral SHEAR. Agriculture was not going to pick up the difference in the cost. In 1983, when this subject first came up we reviewed the situation carefully. By letter we wrote to Agriculture that we recognized that although cargo preference might apply, that the program would not be viable if cargo preference costs were added to it.

Senator STEVENS. I understand that from the Government's point of view it may be burdensome to add $116 million to the cost. But from the point of view of exporters, what difference does it make?

The vessels were available and there is no increased cost to the exporters, no increased cost to the purchaser, as I understand it. Maybe it will be cleared up as we go along. I just don't see how there was a cost to the seller or to the purchaser. I understand it is an increased cost to the taxpayer.

Admiral SHEAR. I understand what you are saying, sir. Someone would have to pay the difference.

Senator STEVENS. That difference was ordered by the court to be paid by the Federal Government.

Admiral SHEAR. I understand, sir.

Senator STEVENS. Senator Inouye.

Senator INOUYE. Admiral, your testimony suggests very strongly that you and the administration support the existing cargo preference laws; is that correct?

Admiral SHEAR. Yes, very definitely it is, sir.

Senator INOUYE. If that is the case, am I correct to assume that you are opposed to S. 171, S. 616, S. 664, S. 721, and S. 930?

These bills have one thing in common, they would narrow the scope of the cargo preference laws.

Admiral SHEAR. The administration is reviewing these laws, these proposed bills, and has not taken any specific position on them.

Senator INOUYE. So, you are not certain whether you are for or against the cargo preference laws?

Admiral SHEAR. Yes, we are very definitely for the cargo preference.

Senator INOUYE. You are for it, but you have to study bills that would either restrict it or narrow the scope of the laws.

Admiral SHEAR. We are vigorously in support of the cargo preference laws, the acts of 1904, Public Law 664 and Public Resolution 17 as they have existed for many years.

Senator INOUYE. Would you resist any amendment to these positions?

Admiral SHEAR. We are not actively supporting legislation that would exempt blended credit or anything of that nature, but we wouldn't oppose such a position. We would strongly oppose any legislation that would broaden an exemption beyond blended credit.

Senator INOUYE. Is it correct that on at least 12 separate occasions between October 1982 and July 17, 1983, DOD and MARAD took the position that the Cargo Preference Act applied to the Blended Credit Program?

Admiral SHEAR. I can't comment on the specific number of times. We made our position clear in the letter of 1983 from the Maritime Administration to the Department of Agriculture.

Senator INOUYE. Is it correct on July 27, 1983, the Maritime Administration changed its mind and said even though cargo preference applied to the Blended Credit Program, it would not apply the law because to apply it to the Blended Credit Program as constituted would result in costs that would entirely offset the program benefits?

Admiral SHEAR. That is the letter and comment to which I referred earlier, sir, and that is correct. On July 27, 1983, we did in fact send a letter to the Agriculture Department saying that the cargo preference applied, but since it was applied, the program would not be viable. We took that position.

Senator INOUYE. What was the reason for changing your mind after having taken strong positions over 2 years?

Admiral SHEAR. The basic rationale was that the program wouldn't work if there was an insistence on applying cargo preference.

Senator INOUYE. Are farmers required to participate in agricultural programs where cargo preference laws apply?

Admiral SHEAR. Are farmers required to participate?

Senator INOUYE. Yes. They don't have to be in programs that are subject to cargo preference laws, isn't that correct?

Admiral SHEAR. No. The vast majority of our other agricultural products are shipped commercially. As a matter of fact, cargo preference aspects of our overall gross annual shipments are only about 2 percent, only about 2 percent of the volume and income of the American agricultural exports.

The actual figure on the cargo preference side is very small.

Senator INOUYE. So, it is not a freedom of choice for farmers? They are not required to be in that business?

Admiral SHEAR. Not required; however, we do have certain requirements to utilize cargo preference programs for support of our less fortunate friends and allies overseas.

Senator INOUYE. Would you say that if this law is not followed, that the participants are in violation of the law?

Admiral SHEAR. Are you referring to the blended credit decision as rendered, sir?

Senator INOUYE. No. Just the law itself. I notice from MarAd's annual report, which is in galley form at the present time, you have noted that of all the agencies, one agency was in constant violation.

Is that agency guilty of a criminal act under this law?

Admiral SHEAR. No, sir.

Senator INOUYE. How do you propose to force an agency to comply with the laws of the land?

Admiral SHEAR. We have a regular and thorough relationship with all the agencies involved in cargo preference. We work closely with them at senior levels and at working levels. By and large, our requirements are met across the board on an annual basis.

As a matter of fact, the record from 1970 to date is very good. There have been 1 or 2 years where the figures were not met by a percentage point or two.

I should point out that we have just this past week gotten the figures, preliminary figures, for 1984, and the figures haven't achieved the 50-percent level.

Senator INOUYE. Mr. Chairman, I have with me table 18, Government-sponsored cargoes, calendar year 1983, prepared by MarAd. I ask unanimous consent it be made a part of the record.

Senator STEVENS. Without objection.

[The following information was subsequently received for the record:]

Table 18: GOVERNMENT-SPONSORED CARGOES—CALENDAR YEAR 1983[1]

Public Law 664 Cargoes:

Shipper	U.S.-Flag Revenue ($1,000)	Total Metric Tons	U.S.-Flag Metric Tons	Percentage U.S.-Flag Tonnage
Agency for International Development (AID):				
Loans and Grants	62,157	1,245,658	559,887	45[2]
P.L. 480—Title II	102,417	1,869,604	902,961	48[2]
Section 416	3,815	44,645	20,986	47[2]
Board of International Broadcasting	19	137	122	89
Department of Agriculture:				
P.L. 480—Title I	123,328	3,674,899	1,772,069	48[2]
Department of Commerce:				
Industry and Trade Administration				
Other Agencies	410	1,611	496	31[4]
Department of Defense:				
Military Assistance Program and the Foreign Military Sales Credit Program	34,001	115,581	89,575	78[5]
Corps of Engineers	2,698	8,226	8,218	100[5]
Naval Facilities Engineering Command (Diego Garcia)	8,172	23,486	23,486	100
Naval Facilities Engineering Command (Somalia)	1,896	4,281	4,281	100
Department of Energy:				
Bonneville Power Administration	19	842	110	13[4]
Strategic Petroleum Reserve	74,200	11,687,165	9,539,292	82[4]
National Aeronautics and Space Administration	235	596	263	44[3]
Tennessee Valley Authority	12	115	88	77
Department of the Treasury:				
Chrysler Corporation	2,466	22,893	14,070	61[7]
General Services Administration Stockpile	8,372	805,428	805,394	100
Department of Transportation:				
Urban Mass Transportation Administration	3,338	23,398	11,592	50[2]
Federal Railroad Administration	83	4,248	2,246	53
U.S. Information Agency	374	1,203	1,175	89
Department of State:				
Foreign Building Office (not including AID)	559	3,620	3,522	97
Other Agencies	206	238	201	84[8]

Public Resolution 17 Cargoes:

	Total Metric Tons	U.S.-Flag Metric Tons	Total Freight Revenue	U.S.-Flag Freight Revenue	Percentage U.S.-Flag
Export-Import Bank	100,273	86,152	$39,739,883	$32,474,602	82%[10]

Agency for International Development (AID)/Israeli Agreement-Cash Transfer Program

U.S.-Flag Revenue	Total Metric Tons	U.S.-Flag Metric Tons	Percentage U.S.-Flag Tonnage
$36,871,000	1,667,848	814,353	49[9]

[1] Includes civilian agencies, Department of Defense Foreign Military Sales Program, Military Assistance Program, U.S. Army Corps of Engineers—NEGEV—OMAN, and the Naval Facilities Engineering Command—NAVFAC (Diego Garcia and Somalia). Other Department of Defense cargoes not included.

[2] Agencies' tonnages are reflected in metric tons for uniformity only. Cargo preference compliance for those programs involving high cube/low density cargoes, is achieved on a gross revenue ton basis. Percentages reflected on a weight tonnage basis for such programs do not necessarily represent the exact extent of the program's compliance with the statute.

[3] The program did not meet the minimum 50 percent U.S.-flag participation level. U.S.-flag service was available on a timely basis to have enabled the agency to meet the cargo preference requirement.

[4] Agencies complied with the statute as the imbalance in favor of foreign-flag shipments was due to nonavailability of U.S.-flag service.

[5] Documents were only received from Honduras, Oman and Saudi Arabia projects.

[6] MARAD monitors the SPR program on the basis of long-ton miles (LTM). In CY 1983, this program provided a total of 33,922,489,645 LTM of which U.S.-flag carriers derived 20,884,507,992 LTM or 61 percent.

[7] The three year Chrysler Guarantee Loan program was terminated on August 15, 1983.

[8] Cargo of government and private agencies that generated less than 100 metric tons of cargo in 1982. The agencies which reported in 1983 are: Action, Agriculture Marketing Service, Agriculture Research Service, American Battle Monuments, Animal, Plant Health Inspection Service, Center for Disease Control, Defense Accounting Office, Department of Defense, Drug Enforcement Administration, Federal Aviation Administration, Foreign Agricultural Service, Federal Bureau of Investigation, Federal Highway Administration, General Accounting Office, Geological Survey, Health and Human Services, Immigration and Naturalization Service, International Exchange Service, Labor Department, Library of Congress, Narcotics Assistance Unit, National Oceanic and Atmospheric Administration, National Park Service, National Science Foundation, Peace Corps, Smithsonian Institute Soil Conservation Service, Treasury Department, U.S. Custom Services, U.S. Trade Representatives, and Veterans Administration.

[9] While statistics are shown for CY 1983 shipments, Israeli cash transfer program is maintained on a fiscal year basis. This reflects the terms of the side letter executed each year between the Government of Israel (GOI) and AID. On a fiscal year (1983) basis, GOI shipped exactly 50% on U.S.-flag vessels.

[10] Compliance based on Freight Revenue only.

Senator INOUYE. This table is the one that includes, if I may refresh your memory, the list of the agencies shipping cargo to which cargo preference applies.

Admiral SHEAR. I am familiar with that. In 1983 there were several organizations which were a percentage point or two short of the 50-percent mark.

Senator INOUYE. Are you satisfied that the Department of Agriculture met the requirements?

Admiral SHEAR. In 1984 the Department of Agriculture has in fact met those requirements, and continuing close liaison with Agriculture, I believe, will ensure that the requirements are met in the years ahead.

Senator INOUYE. In all programs?

Admiral SHEAR. I believe in one or two small programs there was a drop below 50 percent. I will provide for the record the actual 1984 figures.

[The following information was subsequently received for the record:]

The following figures are provided covering an agricultural program which, based on the reports the Maritime Administration has received, is below fifty percent for Calendar Year 1984.

African relief program calendar year 1984 [1]

	Metric tons
Total	49,521
U.S.-flag	0
Percent U.S.-flag	0

[1] AID advises that these are end of the year shipments. There is a second program, Section 416 Dairy Donations, which based on bills of lading submitted to MARAD is also below the fifty percent level. However, USDA has just informed us that a greater tonnage of cargo was shipped under this program than is reflected in the bills of lading MARAD has received. We are attempting to resolve this difference.

Senator INOUYE. When will you be able to advise this committee as to your position on these bills that I listed?

Admiral SHEAR. They are under review in the administration at the present. I am not prepared to give you any prospective dates, sir.

Senator INOUYE. Thank you very much.

Mr. Chairman, I have very many questions I would like to submit.

Senator STEVENS. Yes. They will be submitted for the record in the normal manner, Admiral.

Admiral SHEAR. Yes, sir.

Senator Stevens: Senator Danforth.

The CHAIRMAN. Mr. Chairman, that you very much.

Admiral, let me say, first of all, as I am sure you can guess from where I am from, cargo preference is not my favorite program. I think that it is a decision to subsidize one sector of our economy at the expense of other sectors.

The agricultural community is now having a very difficult time. I don't understand why they should be hit for really a penalty to subsidize the shipping industry.

Also, when the United States tries to get food to other parts of the world, I don't understand why we have a program in place

which reduces the amount of food that we can get to other parts of the world.

Let me ask this question on the costs that are paid for agricultural shipping. I understand that there has been a GAO report on the costs that are referred to in the shipping of agricultural products to the rest of the world. And that that report has been very critical.

The GAO has found that the procedures for agricultural export transportation can be characterized as inefficient, at times corrupt, lacking in competitive bidding, dependent on spots charters rather than lower cost long-term charters, more expensive foreign flag shipping as well as U.S.-flag shipping and substantially more expensive than cargo preference transportation managed by the Departments of Energy, Navy and Transportation.

Do you think that that is an accurate assessment of the situation?

Even without considering cargo preference, are we paying more than we should be paying to shape farm production to other parts of the world?

Admiral SHEAR. One can always say, Senator Danforth, that we can improve the situation. Before you came in I went over some of the things that we had been doing to improve efficiencies, to cut costs, and so forth. I gave the figure of 40 percent reduction in rates between 1981 and 1984.

There are without question additional things that we can do to improve efficiencies. We have been discussing some of these things with Agriculture and AID, such things as consecutive voyages, such things as a jointly staffed group to coordinate shipping quantities so that we know clearly exactly where the costs are from charters and others, we have very good control of exactly what it is costing to deliver these cargoes.

I think we are making good progress there. There is always room for improvement. Of course, as we get more ships that are more efficient—and, incidentally, we have the average age of our bulk ships now down to about 9 years and we have been through a massive scrapping program which has scrapped more than 90 ships over the past 2 years—we are getting a much more efficient and much more effective merchant marine.

There is always room for improvement. This is an area where we are putting a good deal of effort at the present time in close coordination with AID, with Agriculture and with others.

The CHAIRMAN. According to the GAO, and this is a quote:

"The Maritime Administration assists the Department of Agriculture by calculating a fair and reasonable rate based on cost and profit which is the maximum transportation rate that a U.S.-flag vessel can receive for a voyage. Maritime inadequately assures each vessel's transportation rate does not exceed a fair and reasonable rate."

That is the opinion of GAO. Do you have a comment?

Admiral SHEAR. I do have a comment. I will comment in general and then I will ask for a more detailed comment from Mr. Gary Misch on my left.

We do have thorough ways to compute fair and reasonable rates, compare them with foreign flag ships versus U.S.-flag ships. I will ask Mr. Misch to go into more detail on that.

Mr. MISCH. Thank you, Admiral.

Senator, with respect to the appeal, Public Law 480 Program of the Department of Agriculture, the role of the Maritime Administration in calculating fair and reasonable rates goes something like this. The U.S. Department of Agriculture will receive a particular rate for a U.S.-flag company. They must approve all rate fixtures before the actual fixture can take place.

They transmit that information to the U.S. Maritime Administration. The name of the ship, the amount of the cargo, ports of call. We calculate what is basically a proforma voyage analysis based on the actual cost of that vessel, including certain expenses that would be unique to that particular vessel.

A lot depends on the terms of sale, for example. Certain freight rates include the cost of loading and cost of unloading. Other types of rates do not.

What we do is take the latest information that we have for that U.S.-flag ship in terms of its operating cost and add to it the latest information that we have concerning the rate of discharge, rates of loading, costs that are included in the freight rate quoted.

We then transmit what we call a guideline rate, which is a maximum amount, maximum rate that that agency can approve before the fixture can take place.

The CHAIRMAN. You know all of the mechanics much better than I ever will, but has the GAO report been analyzed by the Maritime Administration?

Admiral SHEAR. Yes, it has.

The CHAIRMAN. Are the points in it well taken or not well taken?

Admiral SHEAR. Sir, they are well taken. There were certain recommendations that were well in place before the GAO ever came out with their report. Some procedures were in place as long as 2 years ago.

The CHAIRMAN. Do you have any thoughts as to how agricultural transportations costs could be further reduced?

Admiral SHEAR. Yes, sir, we do. We had indicated through our proposed Joint Transportation Office a method that we thought could be employed to reduce transportation costs. It would be a joint function among the three Federal agencies involved, that is, the U. S. Department of Agriculture, the Agency for International Development and Maritime Administration would, within existing ceilings and existing personnel, for a joint management office for the Public Law 480 Program.

One of the things that office would undertake would be the use of consecutive voyage charters for U.S.-flag vessels. We have found that when we have been able to develop consecutive voyage charters, that the rates have dropped significantly. A prime example of that is in the U.S.-Israeli grain rate where the rates have been cut in half under long-term voyage charters.

The CHAIRMAN. Is it possible to cut rates in half generally?

Admiral SHEAR. That is a very difficult statement, sir. It depends on the amount of cargo, type of ship and where the cargo is going to and from.

The CHAIRMAN. Thank you, Mr. Chairman.

Senator STEVENS. Thank you, Senator Danforth.

Senator Gorton.

Senator GORTON. No questions, Mr. Chairman.

Senator STEVENS. Do you have any further questions, Senator Inouye?

Senator INOUYE. Yes. In your calculations to determine a fair and reasonable rate, don't you assume that a vessel will return to the United States without cargo?

Admiral SHEAR. That assumption is made.

Senator INOUYE. We have been advised, at least I have been advised, that some vessels may be carrying cargo on a return voyage and others have been scrapped.

Do you routinely monitor these shipments to identify these situations?

Admiral SHEAR. Yes, sir, we do. With respect to scrapping, the agency involved will generally ask us to develop what we would call a scrap rate which is not a round-trip rate, but a rate that would include the steaming time to the Near East scrapyard.

That cost is calculated in our rate; in other words, it would be significantly less than a return trip home. We have been doing that for some years.

Senator INOUYE. I have been told that they are scrapped when the assumption was made that they would return without cargo.

Do they get a reimbursement? I have been told this has happened more than one or two times.

Admiral SHEAR. That may have happened on one or two occasions, sir. I don't have the particulars on that, but routinely we do monitor that.

The agencies are very careful about this because they do not want to approve a rate any higher than necessary nor do we want them to. We do very routinely monitor this to determine if in fact the vessel is going to be scrapped.

Senator INOUYE. The GAO seems to disagree with you. But on those one or two occasions you cited——

Admiral SHEAR. There may have been certain instances.

Senator INOUYE. What did you do with them?

Admiral SHEAR. I will have to submit that for the record. I don't know.

Senator INOUYE. What happened to those vessels who return home with cargo? Is there rate still computed as if they returned without cargo?

I have been told this has happened on more than one or two times.

Admiral SHEAR. There may have been some instances. It depends on is the ship laid off before it came back? Did it come back direct from discharging? I would have to know the circumstances.

Senator INOUYE. Are you aware of any instances?

Admiral SHEAR. I believe there have been a few instances.

Senator INOUYE. Do you know what happened to them?

Admiral SHEAR. I will have to submit that for the record, sir. I honestly can't give you the details.

Senator INOUYE. Will you provide us with a response because I have been asking questions in other hearings, over the past few

months, and I am still waiting for a response? May I get a response within a week?

Admiral SHEAR. We will get right on it and get the response as rapidly as we can, Senator Inouye.

[The following information was subsequently received for the record:]

The Maritime Administration (MARAD) monitors the sale or transfer of ownership of any U.S.-flag vessels for scrapping purposes. The vessel owner must obtain approval from MARAD before he can dispose of a particular vessel for scrap purposes. Information regarding such approvals is made available to each interested Federal agency upon request, such as the Department of Agriculture and the Agency for International Development. Subsequently, when the vessel is actually scrapped, the vessel owner is required to provide MARAD with an appropriate certification. This also provides a means for the concerned Federal agency to determine when the scrapping has actually been accomplished.

MARAD has in the past discussed with each Federal agency involved in Public Law 480 programs the desirability of making a reservation in each charter transaction involving older vessels which could be likely candidates for scrapping, for an adjustment in the freight rate in the event that the vessel is scrapped overseas rather than returning to the United States. MARAD, on request, provides the Government agency with a fair and reasonable Guideline Rate to cover such a shortened voyage, in addition to the usual fair and reasonable Guideline Rate which is calculated to include a return voyage to the United States in ballast. However, the responsibility for taking the necessary protective steps is that of the agency which charters the vessel or approves such charters, and accordingly funds all or a portion of the ocean freight amount.

MARAD has no information which indicates any specific recent instances in which a vessel carrying an outbound Public Law 480 cargo was scrapped after discharge of that cargo, without returning to the United States, and where the shipper agency did not have a contractual provision for an adjustment of the rate predicated on a scrap voyage.

MARAD has not monitored instances where vessels which carried an outbound Public Law 480 cargo had also carried cargo on their return voyage to the United States, because ir our view such instances are extremely rare. When they occur they are likely to involve a lengthy interval of lay up for the vessel before it can secure a homebound cargo, or the possibility of a substantial ballast voyage to position the vessel for a return cargo. Should the vessel lay up at a foreign port for an extended period of time before securing a return cargo, the lay up time could logically be considered as equivalent to the homebound ballast voyage anticipated in the original Guideline Rate calculation.

We are aware of four instances since 1982 in which vessels that carried outbound Public Law 480 cargo subsequently obtained cargo enroute to the United States.

In one instance, a tanker having discharged a grain cargo in Bangladesh, while returning in ballast to the United States, secured a crude oil cargo for the Strategic Petroleum Reserve (SPR) loading at Brass River, Nigeria, for discharge in the U.S. Gulf. In this case, the ballast time for this vessel to the loading port in Nigeria was approximately 4 days less than the 34 days allowed for ballast into the U.S. Gulf.

In another instance, a vessel which discharged a grain cargo at Safaga, Egypt, subsequently secured a cargo of crude oil for the SPR loading at Sullom Voe, U.K., for discharge in the U.S. Gulf. In this instance, the ballast voyage to Sullom Voe and the time lost in order to position the vessel for the crude oil cargo required only 5 days less than the ballast time originally allowed this vessel.

In the third instance, a vessel which discharged a grain cargo at Safaga, Egypt, then proceeded to Dubai where the vessel was laid up for approximately 115 days before securing a commercial oil cargo from Dubai to the Cayman Islands. The 115 days lay up time in Dubai far exceeded the ballast time of 23 days allowed for the return voyage from Safaga to the U.S. Gulf in MARAD's Guideline Rate calculation. It should be noted that all three of these vessels carried their outbound preference cargo at rates substantially below the Guideline Rates set by MARAD.

The fourth instance involved a vessel which discharged a cargo of grain at Port Sudan, and on the return voyage proceeded in ballast to Priolo, Sicily, where the vessel then loaded a commercial cargo of oil for the U.S. East Coast. In this case, the vessel saved approximately 11 days ballast time as a result of obtaining the commercial oil cargo.

These infrequent instances of return cargoes and the usually insignificant savings to the vessels in terms of unused ballast time, when weighed against the overhead expense of tracking such occasions and negotiating reasonable adjustments in rate after the fact, are indicative of the reason why MARAD has not monitored these activities. It should also be considered that the calculation of Guideline Rates in itself necessarily involves some use of average factors and given some of the variable elements that enter into a typical ocean voyage, such as port congestion and weather delays, any particular voyage may result in a better or worse performance than anticipated in the Guideline calculation.

Should there be any indication in the future of increasing participation by U,.S.-flag vessels in the carriage of return bulk cargoes, we would certainly reconsider the feasibility of taking such possibilities into account in the Guideline Rate process.

QUESTIONS OF SENATOR INOUYE AND THE ANSWERS

Question. Notwithstanding the court's decision, is it still DOT's position—and I am quoting from MARAD's September 1983 Testimony before this committee, in connection with the blended credit program—that:

"It is appropriate to consider the underlying objectives of the cargo preference laws and the results that would obtain from their application in determining whether to restrict the imposition of their requirements in certain circumstances."

The reason I ask this question is because DOT is charged with administering the Cargo Preference Act, and taken literally I believe this quote can be read to be an invitation to agencies to design export promotion programs which evade the Cargo Preference Act.

Answer. The Department continues to believe that "It is appropriate to consider the underlying objectives of the cargo preference laws and the results that would obtain from their application in determining whether to restrict the imposition of their requirements in certain circumstances." For that reason we believe that the court erred in rejecting the Department's position that MARAD could consider what is "necessary and practicable" in determining what programs are subject to cargo preference. This belief is in no way intended to encourage or result in evading the Cargo Preference Act.

Question. The Government has appealed the decision of the District Court holding that the Cargo Preference Act applies to the Blended Credit Program.

Does this mean that the Administration's position is that the Cargo Preference Act does not apply to the program?

Answer. We believe that the Court erred in rejecting the Department's position that MARAD had the discretion to exempt the program from those requirements. The Administration's position on the applicability of cargo preference requirements to the blended credit program was articulated by the Department of Justice in court. That Department argued in the alternative the non-applicability of cargo preference requirements to that program. The Administration's position on appeal will be articulated by the Department of Justice in court.

Question. (a) Does the Cargo Preference Act apply to a straight GSM-102, straight loan guarantee program?

(b) Is such a program in effect now, or will one come into effect within the next year? And If so, does cargo preference apply?

Answer. CCC has a GSM-102, straight loan guarantee program in effect now, which is a guarantee for a maximum period of 3 years of loans at a commercial rate. Based on 1963 and 1965 opinions of the Attorney General regarding non-concesional programs promoting agricultural exports, cargo preference requirements have not been applied to the GSM-102 program.

Question. The entire blended credit program amounted to about 5½ million tons of cargo. Before the Secretary of Agriculture suspended the program, the CCC had shipped about 2 million tons exclusively on foreign-flags. That leaves about 3.5 million tons to be shipped if the Secretary reinstituted the program.

In view of the District Court's decision, if the blended credit program were reinstituted, how much of the remaining 3.5 million tons would have to be shipped on U.S.-flags to comply with the Cargo Preference Act?

Answer. USDA had announced a total of $536 million of blended credit available for FY 1985 when this program was suspended. MARAD estimates that this amount could have generated approximately 3.6 million tons of cargo, depending on the commodities and prices at time of purchase. Half of that amount, approximately 1.8 million tons would have to be shipped on U.S.-flag vessels to comply with the District Court's interpretation of the Cargo Preference Act. This would be 50 percent of

the total Blended Credit shipments which presumably would take place in Calendar Year 1985. This is consistent and in accord with the court's decision which did not address the make-up of a cargo preference deficit from the previous year.

Question. This morning the committee will hear testimony from the Soybean Association that application of the Cargo Preference Act to the blended credit program will increase the cost of that program by over 650 percent for wheat and over 370 percent for soybeans.

Now this is a statement of fact. Do you agree with these statistics?

Answer. While we do not know how these costs were derived, we see absolutely no basis for such figures as an increase in cost of over 650 percent for wheat and 370 percent for soybeans. We do not have the necessary facts or details to independently estimate this cost impact for these individual programs. We suggest that the Committee request backup material from the Soybean Association, and we would be glad to review the calculations.

Question. It has been suggested that the cost of financing the cargo preference act be transferred to DOT's budget.

What are your views?

Answer. Under the P.L. 480—Title I and III programs, USDA reimburses the recipient country for the ocean freight differential between the U.S.-flag rates and the foreign-flag rates, for the cargoes shipped on U.S.-flag vessels. The recipient country pays the freightbased on the foreign freight rate. In other programs where the U.S. government pays the ocean freight, such as Title II, P.L. 480, and Section 416 foreign donation programs, the government pays the total freight on both U.S.-flag and foreign-flag vessels. USDA also has the discretion to finance on credit terms the full ocean freight on P.L. 480 Title I and III shipments, if it determines that such financing would further the purposes of the program.

We believe that the agency which negotiates the commodity transactions with the recipient countries is in far better position to efficiently plan the use of their budgeted funds by taking into account various changing factors such as commodity price levels for both foreign-flag and U.S. vessels. All of these factors influence the levels of commodity purchases in each year, and the concerned agency can adjust the required amounts for freight and commodity purchases. It would be very difficult for different agencies to plan and coordinate separate budgets which would match the ocean freight funding with the funding requirements for commodity purchases.

If MARAD were to fund the ocean freight differentials for USDA, MARAD would have to assume responsibility for the administrative procedures related to the approval of vessels and rates and the interface with the concerned recipient countries in this connection. This would require additional staff and cost beyond those incurred currently by USDA inasmuch as USDA would still require staff for the booking of and payment of freight on those foreign flag cargoes which they control, as well as for the coordination of commodity purchases with vessel availability. It would also become necessary for the recipient government to communicate with two separate U.S. Government agencies on each transaction, USDA for the commodity purchase and MARAD for the vessel approvals.

Successive Administrations have publicly supported our cargo preference laws, and yet it seems not a year goes by when there is not at least one major instance where these laws have been evaded, or an inter-department conflict arisen.

Just a few years ago, the Urban Mass Transportation Authority was responsible for the purchase of 400 buses constructed in Germany. Many of these buses were being delivered to the United States aboard Soviet-flag vessels until Congress raised the issue of our cargo preference laws.

Then there was the case of the sale of surplus butter to New Zealand through the Commodity Credit Corporation. The Department of Agriculture disagreed with MARAD, and refused to acknowledge that our cargo preference laws applied.

In response to my question at that time, Admiral Shear said he was "not completely satisfied" with the progress MARAD was making to assure that a "fair distribution of that cargo goes to U.S.-flag vessels."

More recently, GSA arranged for the purchase of 1.6 million tons of bauxite from Jamaica. Although our cargo preference laws applied, and two U.S.-flag vessels tendered offers to carry the cargo, both were summarily rejected by GSA because of the unique and questionable delivery requirements imposed by that Agency. All of that cargo was carried on foreign bottoms.

Then the Department of Agriculture entered into an agreement with Egypt whereby flour was purchased by Egypt from U.S. millers at $155 a ton. The U.S. Government in turn provided the millers with grain in sufficient volume for them to make the sale at that price, including a profit.

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The Department of Agriculture said our cargo preference laws did not apply; the Department of Transportation said they did. And there the matter stood. The Administration finally ruled that 50 percent of the wheat must go on U.S. ships, but it stopped short of saying that Cargo Preference Laws applied.

The Department of Transportation took the position that because the Jones Act applied to the shipment of oil from Alaska to the Strategic Petroleum Reserve (SPR), such shipments may not be counted towards the 50 percent U.S.-flag Cargo Preference share required of the importation of foreign oil for the SPR program.

The Department of Justice resolved the dispute in favor of the Department of Energy.

We have discovered that in 1983, USDA and AID deliberately violated the minimum 50 percent requirement for every program under Title I and Title II of P.L. 480 and Sec. 416 of the Dairy Donation program. And they did so despite warnings from MARAD.

And finally, there is the blended credit controversy which had to be resolved in the courts.

Question. With this background, doesn't efficiency in Government alone argue for S. 187, which would put sole responsibility on the Secretary of DOT to determine if the Cargo Preference Act applies?

Answer. The Administration has taken no position on S. 187. This matter is currently under review within the Administration and a response will be forthcoming when a decision is reached.

Question. This morning the committee will hear testimony proposing legislation to authorize the Maritime Administration to transfer to the USDA on a one-time basis only unobligated operating-differential subsidy or other available funds to pay the ocean freight differential between U.S. and foreign operators for the remainder of the current blended credit program. U.S.-flag carriers would be limited to modern and efficient vessels whose transportation costs are fair and reasonable. Blended credit cargoes may still move on foreign-flag vessels if funds for U.S.-flag carriage are not sufficient.

What are your views?

Answer. The Department of Agriculture has responsibility for planning and funding agricultural export programs within authorized budget limits. Cargo preference requirements must be accommodated within that structure, just as other agencies are required to do. It should also be noted that any excess funds in MARAD's Operating-Differential Subsidy (ODS) program would consist of liquidating cash only, which carries with it no authority to incur obligations. If the legislation authorizing the transfer includes additional authority to incur obligations (budget authority), the effect would be the same as any other increase over the budget and would result in unbudgeted obligations and outlays. A more direct approach would be to seek separate appropriations for the Department of Agriculture subject to the normal budgetary process. For the above reasons, we would oppose such a proposal.

Question. Inasmuch as the Administration has said it supports existing cargo preference laws, is it fair to say that it is opposed to the current bills, all of which would narrow the scope of the Cargo Preference Act?

Answer. The Administration is in the process of reviewing the various bills impacting cargo preference, and I cannot at this time comment on them specifically. The Administration's position is that the cargo preference laws as interpreted prior to the recent Federal District Court decision on blended credit should neither be expanded nor contracted.

I have explained why I do not believe the cost of cargo preference makes less money available for the purchase of agricultural commodities.

While the Department of Agriculture is responsible for calculating ocean freight differentials, MARAD computes a fair and reasonable rate for agriculture (a Guideline Rate) that becomes the maximum transportation rate a U.S.-flag can receive for a voyage.

If MARAD inadequately assures that each vessel's transportation rate does not exceed a fair and reasonable rate, then the Department of Agriculture could be paying substantially higher ocean freight differentials than necessary.

In that event, less money is, of course, available for the purchase of agricultural commodities. But the fault is not cargo preference.

I believe MARAD calculates a Guideline Rate assuming a vessel will return to the U.S. without cargo. I have heard, however, that some vessels may be carrying cargo on the return voyage and, of course, other vessels have been scrapped.

Does MARAD or Agriculture routinely monitor shipments to identify these situations? Because Guideline Rates are established based on a round trip voyage, it seems to me the potential exists for a vessel to earn excessive profit.

Inasmuch as MARAD does not compute a Guideline Rate on liners, how does the U.S. Government know whether the transportation rate for liners represents cost plus a reasonable profit? Isn't there a possibility Agriculture may be paying substantially higher ocean freight differential than necessary?

Question. I believe MARAD calculates a Guideline Rate assuming a vessel will return to the U.S. *without* cargo. I have heard, however, that some vessels may be carrying cargo on the return voyage and, of course, other vessels have been scrapped.

Does MARAD or Agriculture routinely monitor shipments to identify these situations? Because Guideline Rates are established based on a round trip voyage, it seems to me the potential exists for a vessel to earn excessive profit.

Answer. The Maritime Administration (MARAD) monitors the sale or transfer of ownership of any U.S.-flag vessels for scrapping purposes. The vessel owner must obtain approval from MARAD before he can dispose of a particular vessel for scrap purposes. Information regarding such approvals is made available to each interested Federal agency upon request, such as the Department of Agriculture and the Agency for International Development. Subsequently, when the vessel is actually scrapped, the vessel owner is required to provide MARAD with an appropriate certification. This also provides a means for the concerned Federal agency to determine when the scrapping has actually been accomplished.

MARAD has in the past discussed with each Federal agency involved in Public Law 480 programs the desirability of making a reservation in each charter transaction involving older vessels which could be likely candidates for scrapping, for an adjustment in the freight rate in the event that the vessel is scrapped overseas rather than returning to the United States. MARAD on request provides the government agency with a fair and reasonable Guideline Rate to cover such a shortened voyage, in addition to the usual fair and reasonable Guideline Rate which is calculated to include a return voyage to the United States in ballast. However, the responsibility for taking the necessary protective steps is incumbent upon the agency which charters the vessel or approves such charters, and accordingly funds all or a portion of the ocean freight amount.

MARAD has no information which indicates any specific recent instances in which a vessel carrying an outbound Public Law 480 cargo was scrapped after discharge of that cargo, without returning to the United States, and where the shipper agency did not have a contractual provision for an adjustment of the rate predicated on a scrap voyage.

MARAD has not monitored instances where vessels which carried an outbound Public Law 480 cargo had also carried cargo on their return voyage to the United States, because in our view, such instances are extremely rare. When they occur they are likely to involve a lengthy interval of lay up for the vessel before it can secure a homebound cargo, or the possibility of a substantial ballast voyage to position the vessel for a return cargo. Should the vessel lay up at a foreign port for an extended period of time before securing a return cargo, the lay up time could logically be considered as equivalent to the homebound ballast voyage anticipated in the original Guideline Rate calculation.

We are aware of only four instances since 1982 in which vessels that carried outbound Public Law 480 cargo subsequently obtained cargo enroute to the United States.

Should there be any indication in the future of increasing participation by U.S.-flag vessels in the carriage of return bulk cargoes, we would certainly reconsider the feasibility of taking such possibilities into account in the Guideline Rate process.

Question. Inasmuch as MARAD does not compute a Guideline Rate on liners, how does the U.S. Government know whether the transportation rates for liners represents cost plus a reasonable profit? Isn't there a possibility Agriculture may be paying substantially higher ocean freight differentials than necessary?

Answer. MARAD has discussed the desirability of an appropriate procedure for considering the reasonableness of rates on preference cargoes moving on U.S.-flag liner vessels. The agency is evaluating the impact of a fair and reasonable rate methodology. It should be noted, however, that much of the preference cargo carried on liner vessels is carried at conference rates.

Senator STEVENS. Thank you very much, Admiral.

Our next witness is Richard Goldberg, Deputy Under Secretary for International Affairs of the Department of Agriculture. He is accompanied by Mr. Bob Sindt, Mr. George Pope and Mr. Jim Hinchman.

Your statement is not long, Mr. Goldberg. We are pleased to have it.

STATEMENT OF RICHARD W. GOLDBERG, DEPUTY UNDER SECRETARY, INTERNATIONAL AFFAIRS AND COMMODITY PROGRAMS, DEPARTMENT OF AGRICULTURE, ACCOMPANIED BY GEORGE POPE, ASSISTANT ADMINISTRATOR OF FOREIGN AGRICULTURAL SERVICE; JIM HINCHMAN, ASSOCIATE GENERAL COUNSEL; AND BOB SINDT, ASSISTANT DEPUTY ADMINISTRATOR FOR COMMODITY OPERATIONS, AGRICULTURAL STABILIZATION AND CONSERVATION SERVICE

Mr. GOLDBERG. Thank you, Mr. Chairman.

I have with me today Jim Hinchman on my right, Associate General Counsel for the Department, George Pope on my left, sir, who is the Assistant Administrator of the Foreign Agricultural Service in the Department, and Bob Sindt, Assistant Deputy Administrator for Commodity Operations, Agricultural Stabilization and Conservation Service, in the Department.

Mr. Chairman, members of the subcommittee, I appreciate the opportunity to discuss cargo preference as it pertains to agriculture and to clear up some misunderstandings that have become apparent in the public dialogue on this important issue.

In accordance with a long-established Executive Branch position, USDA has for 30 years required cargo preference for the Public Law 480 (Food for Peace) titles I and III concessional sales programs and to the food donations programs under title II of Public Law 480.

We also required cargo preference for commodities donated overseas under section 416 of the Agricultural Act of 1949.

Under those programs, the added cost of using U.S.-flag ships is paid by the USDA from Public Law 480 funds and, in the case of section 416, from Commodity Credit Corporation (CCC) funds.

Guided by Justice Department opinions, USDA has not required cargo preference for its commercially-oriented export programs of direct credit, blended credit, and credit guarantees.

The blended credit program combines an amount, usually 15 to 20 percent, of interest-free direct credit under CCC's Export Credit Sales Program (GSM-5) with an amount, usually 80 to 85 percent, of private commercial credit guaranteed under the CCC export Credit Guarantee Program (GSM-102) to produce a reduction in the overall interest rate so that the overall terms of sale are more competitive in the world market.

As you know, a lawsuit was brought by the Transportation Institute and other maritime interests against the Department of Transportation, the Maritime Administration, and the Department of Agriculture seeking to require cargo preference for the blended credit program.

Last February 21, the U.S. District Court for the District of Columbia, ruled that under the Cargo Preference Act, cargo preference was required for the blended credit program and ordered that the ruling be implemented.

Requiring cargo preference for the blended credit program would increase the landed cost of U.S. grain shipped to foreign buyers on

U.S. vessels by 15 percent to 30 percent, rendering the U.S. commodity noncompetitive. On February 16, the USDA suspended approval of sales registrations under the program.

Since the court's decision, several bills have been introduced in the Congress addressing the issues of cargo preference.

Mr. Chairman, I want to point out that the Department of Agriculture is strongly in accord with the administration position that a healthy maritime industry is vital to the national interest.

We have carried our share of cargo preference responsibilities and we will continue to do so, but we do not favor the expansion of cargo perference as would be required under the Court decision of last February 21.

Therefore, it has been decided to appeal the decision. We also will not object to legislation which would return the rules governing the application of cargo preference to the status quo as it existed prior to the Court's decision. In order to meet increasing world competition, reestablishment of the status quo ante is essential.

That concludes my statement, Mr. Chairman. I will be glad to respond to questions.

Senator STEVENS. Mr. Goldberg, perhaps it is fortunate or unfortunate, but I have neither a farm community nor do I have any of the shipping interests that reside in my State or have much to do with it.

I am interested in this argument because of some of the discussions I have had with my colleagues, one of whom told me I didn't understand the situation, that the farmers in his State paid the cost of cargo preference already and they didn't want to see any extension of it.

Do you agree with me that that is not a fair statement and, second, what is agriculture doing to tell the farmers that they really don't pay the cost of cargo preference?

Mr. GOLDBERG. Senator, I have heard the same statement, might, technically speaking, the taxpayers, which include farmers, pay for cargo preference.

Senator STEVENS. They include my fishermen and my oil workers and anyone else. Farmers do not pay cargo preference as part of the cost of their sales. Is that correct or incorrect?

Mr. GOLDBERG. They pay a proportionate share.

Senator STEVENS. Come on. I have been downtown, too. Let us be honest about it. It is time that this myth was shattered. You are here as one of the witnesses for the Government.

Do the farmers as part of the cost of their sales pay for cargo preference?

Mr. GOLDBERG. As a taxpayer, yes.

Senator STEVENS. Are the taxes part of their sales or calculated after their sales?

Most of them aren't paying taxes according to the witness I just heard this morning because they are not making any money. That is one of the problems. The Department of Agriculture spreads this myth and this is a myth that is really totally dividing the Senate now, in my opinion.

It is time that you and your colleagues did something about it.

I understand, Mr. Hinchman, that your general counsel wrote to Justice on April 19 and stated that the Commodity Credit Corpora-

tion had sufficient funds to pay for the blended credit shipments that were suspended.

Is that correct?

Mr. HINCHMAN. The factual statement that the Commodity Credit Corporation does have funds sufficient to cover the cost of cargo preference in the currently programmed remaining level or the blended credit program is true. The amount of funds available for the Commodity Credit Corporation is limited and there are many other demands on those resources.

Senator STEVENS. I understand there are more demands. I am trying to get at the problem here.

Mr. Goldberg, this is a new program started in 1983, is it not?

Mr. GOLDBERG. Yes, it was.

Senator STEVENS. It was started in order to find a way to create a new form of sale. It is my understanding at the time you indicated you were going to avoid using blended credit to displace normal commercial sales.

Mr. GOLDBERG. That is correct. We viewed it as a competitive commercial sale, Senator, and in our judgment at the time, we viewed it as not congressional

Senator STEVENS. Isn't the essence of Judge Green's holding that the blended credit was not commercial, but was in fact concessional because you subsidized the interest rates and guaranteed loans with the full faith and credit of the Federal Government?

It was not a commercial program you were financing? It was a sale that was created through the use of very innovative financing by the Department of Agriculture.

Isn't that correct?

Mr. GOLDBERG. That is the Judge's opinion, Senator. We feel that it was a commercial sale in order to meet world competition and the blending of the two types of programs made it about two points less in interest rates and that is what made it competitive in the world marketplace.

Senator STEVENS. What is the cost this year of the blended credit sales from the point of view of the interest subsidy?

Mr. GOLDBERG. Senator, that program has been suspended.

Senator STEVENS. I mean had it gone ahead. You are correct. Had it been continued in accordance with the judge's decision, what would have been the cost of the subsidy?

Mr. GOLDBERG. You mean the cost of the subsidy alone?

Senator STEVENS. There are two subisidies, as I understand it.

One is that you give an interest-free loan for 20 percent. The second is the 80 percent attributable to the loan guarentee.

Mr. GOLDBERG. No, sir. We don't determine that the GSM-102 is a subsidized loan. That is a commercial loan, a guaranteed loan.

Senator STEVENS. You make it a guaranteed loan at a rate below the market?

Mr. GOLDBERG. No, sir. That is a commercial market price, both interest and the principal.

Senator STEVENS. There is no subsidy in that portion of the 80 percent?

Mr. GOLDBERG. No, sir. There is in the 15 percent to the extent of the direct loan and the 15 to 20 percent is interest free.

Senator STEVENS. Tell that to Mr. Stockman. He tells me that the guaranteed loans to fishermen are subsidized loans and they are not made at the market rate. He calculates a subsidy for my fisherman.

How come he doesn't calculate a subsidy for the farmers when it is a guaranteed loan? Isn't there a percentage of losses on the guarantee?

Mr. GOLDBERG. Conceivably there is a possibility there.

Senator STEVENS. What was your history? You had it for 2 years, 1983 and 1984. Did you pay out any money under the guarantee?

Mr. GOLDBERG. Not on the blended credit program, no, sir.

Senator STEVENS. It is my understanding that the Department shut down the blended credit program notwithstanding the fact that there was money in the Commodity Credit Corporation to continue it as it had been scheduled for the balance of 1985.

Can you tell me what was the rationale of that? Do you agree with the statement, for instance you heard me ask a question of Admiral Shear who he said exporters were going to bear additional cost. I don't understand that comment.

Do you feel anyone other than the Government was going to face additional cost by virtue of Judge Green's decision?

Mr. GOLDBERG. Basically, Senator, we only have so many dollars to use in export promotion programs. If you add cargo preference to the so-called blended credit program, the costs become not very effective in relation to the type of program.

As a rule of thumb, we usually determine that 10 percent of the cost of the program, if it applies to cargo preference, would be in the ball park.

If we put in cargo preference in the blended program, as Admiral Shear testified, it becomes a very expensive program and it is a drain on the resources of the Commodity Credit Corporation and we felt if we had to do that, we could better serve the agricultural interests of this country with a program that would not require that much money.

Senator STEVENS. The cost of that program didn't have anything to do with the problem of the interest rates or the value of the dollar abroad?

Mr. GOLDBERG. The problem of the program, Senator, if cargo preference were applied, would be the cost.

It also, in my judgment, would be an expansion of cargo preference to include a program that we had concluded was a commercial sale and not a concessional sale.

Senator STEVENS. You have some $585 million remaining in the program for this year. As I understand, that has been suspended?

Mr. GOLDBERG. $536 million, I believe, sir.

Senator STEVENS. Do you have any idea what the total value of our agricultural exports would be in that same period?

Mr. GOLDBERG. In the same period?

Senator STEVENS. What are the nonsubsidized exports equal to during that period of time?

I just don't quite understand the decision to suspend this program and in effect put the farmers on the backs of the shipping community because of a decision that held that the sales weren't commercial, but were concessional.

Mr. GOLDBERG. Senator, let me say with respect to the funds, and I think I understand your question, we have under review in the Department the use of other export promotion programs, those and other funds that are available to us for other purposes.

We expect to utilize those funds to make sales without adding to the budget constraints, use funds within the resources that we have available.

Senator STEVENS. I just don't understand this decision of the Government. I am going to have to do a little more studying of it. The decision that the blended credit program was not commercial, a brand new program only 2 years old, should not have shocked the Government so hard that they canceled the program because they would have to pay cargo preference.

Senator Inouye.

Senator INOUYE. Thank you, Mr. Chairman.

Mr. Secretary, I believe your Department has shipped about 1 million tons under the blended credit program.

Isn't that correct?

Mr. GOLDBERG. I believe that is correct, yes, sir.

Senator INOUYE. All of this is shipped on foreign flags?

Mr. GOLDBERG. Yes, sir.

Senator INOUYE. Any Soviet Bloc ships?

Mr. GOLDBERG. I don't know. I could find out for you. I can submit it for the record. I really don't know.

Senator INOUYE. I would appreciate that.

[The following information was subsequently received for the record:]

Shipments under the Blended Credit Program have been commercial arrangements. Therefore, the Department of Agriculture has not tabulated or analyzed the share carried by vessels under various national flags. Since Soviet Bloc vessels participate in cross trades between the United States and other countries, it is possible that they have carried blended credit cargo.

Senator INOUYE. According to MarAd, in the calendar year 1983 your Department and AID deliberately violated the 50 percent requirement with respect to title I and title II of Public Law 480 and section 416 of the dairy donation program.

You have no dispute as far as application of the cargo preference laws in these cases, do you?

Mr. GOLDBERG. Let me correct a couple of things.

First of all, the Department of Agriculture works very diligently to comply with cargo preference laws and to meet the 50 percent requirement. It is not true that we intentionally fell down in 1983 and I can easily explain what happened.

As you know, Senator, we are required to seek the lowest blended cost on certain cargos in order to comply with the program and in that year we had a cargo or a couple cargoes that were approved in December 1983, but actually for the convenience of shippers and others, did not really move until 1984.

So, as a result of the MarAd percentages, reduced our compliance by 50 percent, as you pointed out.

With respect to section 416, we had 11 million pounds that were scheduled for shipment on U.S.-flag vessels during December. Shipment was delayed at the request of the recipient government. That is the reason that we fell slightly below in section 416.

As to title II, In 1983 only 48.5 percent was shipped by U. S. flag. The general depressed state of international shipping market, the availability of cheaper independent foreign flag carriers, fewer U.S.-flag carriers, and limited or no U.S.-flag service to some destinations all contributed to the problem.

I might add, Senator, that we did move cargo from different ports around in our efforts to comply with the 50 percent and that cost an additional $4.4 million to make those moves from various different coastal areas in order to make a concerted effort to comply.

We still, even with the added cost for movement, moving from the various coastal ranges and ports, we were still a half percent off.

I should say corrective action has been taken. If you take the last few years of the operation of our program, we have met the 50-percent requirement. In fact, in a couple of cases we have been over 50 percent in some of these categories.

I really feel very strongly that the Department has done a good job of complying with the requirement under the Cargo Preference Act which we support.

Senator INOUYE. It has been said, Mr. Secretary, by applying the Cargo Preference Act to the $5 million GSM-102 Program, it would increase the merchant marine subsidy by an additional $605 million.

Do you agree with that statement?

Mr. GOLDBERG. I believe, Senator, that would be a conservative estimate.

Senator INOUYE. How do you explain the basis for this 650-plus figure?

Mr. GOLDBERG. We can only do what we do with all the cargo preference projections, Senator, and that is to project our estimated guess as to what countries and what kind of GSM-102 recipient will be involved in making the projected estimates. That is the best we can do.

Senator INOUYE. The Government, as you know, has appealed the district court decision.

Does this mean that the Government's position is that cargo preference does not apply to the blended credit program?

Mr. GOLDBERG. The Government has not appealed as yet. They have filed a notice of appeal.

Senator INOUYE. Will they be appealing?

Mr. GOLDBERG. Yes, sir. As far as I know, they will be.

Senator INOUYE. So the position is that they don't believe that the cargo preference laws apply to blended credit?

Mr. GOLDBERG. That is correct.

Senator INOUYE. Now, the entire blended credit program amounted to 5.5 million tons of cargo. You have already shipped about 2 on foreign flags. That leaves about 3.5 million tons.

Does your Department intend to reinstate the blended credit program pending the disposition of your appeal?

Mr. GOLDBERG. Senator, we are reviewing the blended credit program and other options as well to determine what kind of export programs we will have going on.

Senator INOUYE. Mr. Chairman, I have many other questions I would like to ask, but because of time, may I submit them?

Senator STEVENS. Very well.

We would appreciate your responding to the questions that Senator Inouye will submit.

Senator DANFORTH.

The CHAIRMAN. Mr. Goldberg, whether or not cargo preference is a good idea—I think it is a bad idea, but whether or not it is a good idea, it is indisputable, isn't it, that it does cost the farmers money?

Mr. GOLDBERG. Senator, it costs everybody money.

The CHAIRMAN. Let us take the farmers. Let me lead you through my analysis and you tell me wherein I am wrong.

The whole point of blended credit, and a good part of the point of the Public Law 480, is to provide additional markets for what the American farmer produces, in addition to providing food for people who are hungry.

Mr. GOLDBERG. That is correct.

The CHAIRMAN. The theory is that if more people buy more food, the American farmer is going to be better off financially, isn't that right?

Mr. GOLDBERG. That is correct.

The CHAIRMAN. Therefore, to the extent that funds that would be available for Public Law 480 are funds that would be available for blended credit are diverted into cargo preference, that costs the farmer money, doesn't it?

Mr. GOLDBERG. It costs our resources money and in turn the agricultural community, yes.

The CHAIRMAN. The programs themselves are intended, maybe in the case of Public Law 480 for more than one purpose, but the programs are intended to raise the level of economic prosperity for the American farmers and, therefore, to the extent that the funds aren't available for the intended purpose, but must be spent on cargo preference, that does hurt the farmer financially?

Mr. GOLDBERG. Except in Public Law 480, Senator, which we support cargo preference, we can pretty well project what those costs are going to be and that is funded as such.

Where we get into the difficulty of who pays and who benefits, when we have to use unexpected resources——

The CHAIRMAN. Congress doesn't give the Department of Agriculture just anything it asks for?

Mr. GOLDBERG. No, sir.

The CHAIRMAN. Several years ago, I offered an amendment on the floor, and I think I got 28 votes, to abolish cargo preference for Public Law 480, on the theory that the money that was used for cargo preference could be used for additional food. The effect of that would be that farmers could be better off and that people who are now hungry in other parts of the world would be better off.

That is indisputable, isn't it?

Mr. GOLDBERG. It is a question of how you want to divide your budget.

The CHAIRMAN. What is that?

Mr. GOLDBERG. It is a question of how you divide the funds.

The CHAIRMAN. Right. Let me just assert that the sky isn't the limit in budgeting any more and that we are looking for cutting

back and even the programs such as Public Law 480 aren't going to have unlimited funds available. Therefore, to the extent there is any limitation on the funds, it will either be spent on the program itself or diverted to cargo preference.

You don't disagree with that?

Mr. GOLDBERG. Basically, no, as far as the sky is the limit, that is basically why we suspended the money in the program. To add additional funds would make it a very expensive program.

The CHAIRMAN. Are you familiar with the recent GAO study on cargo preference?

Mr. GOLDBERG. No, sir, I am not.

The CHAIRMAN. I would suggest that the Department of Agriculture and the Department of Transportation both make a serious effort to analyze the GAO study because clearly to the extent that we can keep costs down for shipping, to the extent that we can keep all costs down, those funds are going to be available either for other purposes such as greater grain purchases, or to reduce the deficit, for that matter.

Let me read you a paragraph from the GAO study.

"GAO says Agriculture"—that is the Department—"lacks sufficient involvement with and control over the bidding and negotiation process. Foreign countries or their agents have no incentive to negotiate lower U.S.-flag transportation rates. Agriculture has inadequate procedures and controls to ensure the integrity of the process.

"Also, Agriculture needs to better manage its responsibilities for complying with the cargo preference requirements, approving vessel selections arranged by foreign countries and calculating ocean freight differential payments."

Do you have any comments on that?

Mr. GOLDBERG. No, sir, I don't.

The CHAIRMAN. Do you think it would be a good idea for the Department to analyse the GAO study to find out whether there could be some savings in transportation costs by implementing these recommendations or other recommendations?

Mr. GOLDBERG. It is my understanding, Senator, that that GAO study is under study in the Department and certainly we will be giving our response and we will with cooperation, as we have in the past, with the Maritime Administration.

The CHAIRMAN. Some of the shipping is arranged by brokers; is that right?

Mr. GOLDBERG. Private, yes, sir.

The CHAIRMAN. Are those arrangements necessarily the cheapest and the best?

Mr. GOLDBERG. We think so.

The CHAIRMAN. Is that guessing or do you have a basis for that?

Mr. GOLDBERG. Our people tell me that that is the best possible information they have. They apparently had previous experience doing it the other way.

The CHAIRMAN. Thank you.

Thank you, Mr. Chairman.

Senator STEVENS. Senator Gorton.

Senator GORTON. Mr. Goldberg, as I listened to your testimony and that of Admiral Shear on the subject, I get the impression that the administration would just like to have this issue go away.

Mr. GOLDBERG. No, Senator. The administration needs legislation in order to attain the status quo. The status quo to me means where we were before the court's decision.

Senator GORTON. To get back to that status quo, where are you with respect to the appeal?

Is this something which is likely to be decided expeditiously and promptly or are we looking at a legal process which is going to take another year?

Mr. GOLDBERG. I can't comment on how long it will take, Senator, but the Department of Justice says if you don't file notice of appeal, and I presume they will submit reasons in a timely fashion on how long the courts take to decide, I don't know, but I think that is the reason why we need legislation.

Senator GORTON. I think that answer is that it will be a year or so before we get an answer. I think that that s undoubtedly true.

In connection with Public Law 480, what share of the appropriations, Congress' appropriations, to Public Law 480, goes to purchase the grain and what percentages for the cargo preference, the cost of cargo preference?

Mr. GOLDBERG. Under title II it is two-thirds-one-third. Two-thirds for commodity and one-third for transportation.

Senator GORTON. If one-third is total transportation costs, not all of that is the cargo preference subsidy?

Mr. GOLDBERG. That is right.

Senator GORTON. Approximately what share of it would be the extra cost of transportation caused by the subsidy?

Mr. GOLDBERG. Last year I am told, Senator, it was $20 million and the so-called blended credit, $33 million. Just title II, $1 billion.

Senator GORTON. So, it is only 2 or 3 percent?

Mr. GOLDBERG. Let me get those figures for you, Senator, and submit them for the record so that they are correct.

Senator GORTON. That is not going to do me much good. In any event, it is a relatively modest share, quite modest share of money appropriated to Public Law 480 going to subsidize a portion of the transportation costs and the U.S.-flag merchant marine.

Isn't that an accurate statement?

I don't think you should really have to consult with your associates to answer that, Mr. Goldberg. The answer is yes, isn't it?

Mr. GOLDBERG. I don't think it is a modest amount.

Senator GORTON. A modest share?

Mr. GOLDBERG. You and I might differ on that total. It is about 90–10. I think I testified earlier it is roughly about 90–10.

Senator GORTON. I would have enjoyed that answer a couple minutes ago.

I take it that a major part of your objection, the overwhelming part of your objection to the decision on blended credit is that instead of the merchant marine subsidy being a relatively modest tail, the tail for all practical purposes becomes the dog, that the overwhelming bulk of the amount of money actually spent on the process would be spent for the merchant marine subsidy?

Mr. GOLDBERG. Not the overwhelming, but certainly in a program such as that it became a big factor.

Senator GORTON. How big a factor? What share of the money which we are spending on blended credit?

Mr. GOLDBERG. Both title I and blended credit you could estimate 10 percent of the total cost. Our figures and Admiral Shear's differ a little bit, but basically it is 10 percent.

Senator GORTON. 10 percent of the total cost is the same as on Public Law 480, isn't it?

Mr. GOLDBERG. No; title I, yes.

Basically, Senator, the adminstration does not support expansion of cargo preference.

We do support cargo preference under Public Law 480, as you know. The addition of blended credit would be an expansion of the cargo preference requirement.

Senator GORTON. You do not object to spending 10 percent of the amount of money appropriated for Public Law 480 on cargo preference?

You do object to spending 10 percent of it on any other program?

Mr. GOLDBERG. The difference, Senator, is that in our view blended credit is a commercial sale. Public Law 480 is not a commercial sale, it is a concessional sale. Therein lies the difference.

The administration has always supported cargo preference either under Public Law 480 or section 416.

Senator GORTON. In connection with the commercial sale, what is the Governmental contribution to the program? What is the cost to the Department of Agriculture for this "commercial sale"?

Mr. GOLDBERG. The cost to the Department on the blended credit program was the interest in the direct credit.

Senator GORTON. So, you are paying only the interest differential with respect to the blended credit program?

Mr. GOLDBERG. Only on the 15 percent.

Senator GORTON. On the 15 percent part?

You are saying that the cost of the merchant marine subsidy would only be 10 percent of that very modest——

Mr. GOLDBERG. No, sir, 10 percent of the total, Senator, because you can't segregate what part of the shipment is the 15 and what part is the 85.

Senator GORTON. Ten percent of what? The total cost of the grain to the recipient? Ten percent of the amount of money we appropriate for this purpose? What is the cost of the subsidy?

Mr. GOLDBERG. Ten percent of the value of the dollar, value of the program.

Senator GORTON. Not the dollar value of the wheat or grain?

Mr. GOLDBERG. No.

Senator GORTON. What goes into the cost of the program?

Mr. GOLDBERG. The cost of the program involves the acquisition of the commodities and the transportation.

Senator GORTON. Does the Federal Government pay for the transportation of blended credit sales?

Mr. GOLDBERG. No, they don't any more than they do in Public Law, title I under 480. They pay the difference on the 50 percent portion of the U.S. flag. We only pay the difference.

Senator GORTON. I am not getting anywhere with you on this. I can't conceive how this cost will be only 10 percent of the cost of an interest subsidy which in turn only relates to 15 percent of the sales.

Having been frustrated in that, I am frustrated in trying to help you out. If the cost is only 10 percent of the program, why then is it no longer reasonable to include it in blended credit sales when it is included in the cost of Public Law 480 sales.

I don't think you are right in your answer to my questions, but I have abandoned my attempt to help you out, Mr. Goldberg.

Thank you, Mr. Chairman.

Senator STEVENS. The Government does not buy the blended credit commodities, does it?

Mr. GOLDBERG. No, sir.

Senator STEVENS. It is really an SBA type of function. You are helping to lend the money to finance the sale, isn't that correct?

Mr. GOLDBERG. In the case of the direct role, we buy basically the accounts receivable. Basically that is what we do.

In the case of the GSM-102 guaranteed loan, that is a straight commercial along with loan guarantee.

Senator STEVENS. That is the same thing that SBA has been doing?

Mr. GOLDBERG. That is essentially correct.

Senator STEVENS. It is strange to me that we are being asked to do away with the SBA because it is wrong to subsidized interest rates and guarantee loans for small businesses. But at the same time we are asked to expand the same kind of program, guaranteed loans and subsidized interest rates for agricultural section of our economy.

That, too, merits a little bit of interest as far as I am concerned. If it had not been for the SBA, my State would not have survived after the earthquake.

Do you have any further questions?

Mr. GOLDBERG. Senator, we will furnish for the record a detailed analysis of those numbers for Senator Gorton.

Senator STEVENS. I would appreciate that very much.

[The following information was subsequently received for the record:]

TITLE I/III OCEAN FREIGHT DIFFERENTIAL (OFD) COSTS IN FY 1984

On the basis of Commodity Credit Corporation (CCC) obligations, Title I commodity financing (net of initial payments) totaled $781 million in FY 1984. Ocean freight differential obligations totaled $69.5 million. Thus, total program obligations were $850.5 million, of which payments to offset higher U.S.-flag costs (OFD payments) represented eight percent. However, the cost of the OFD flucuates with the availability of U.S. flag vessels and the condition of the international maritime fleet in a given year. For example, the total program obligation for the Title I/III in FY 1982 was $722.5 million of which the OFD obligations totaled $120.1 million—representing 16% of total program costs in that year.

In the Title II program, FY 1984 obligations totaled $506 million for commodities, and $218 million for transportation, for a total of $724 million. The added costs of cargo preference have not been computed for FY 1984. However, for CY 1984, such costs totaled $20 million. Based on shipments arranged January-June, 1985, the cost of cargo preference in the Title II program is expected to increase to $61 million in CY 1985.

Senator STEVENS. Will you also tell us the total amount of agricultural exports, the total dollar volume of American exports?

Mr. GOLDBERG. Between 34 and 35 billion this year which is down by a mite.

Senator STEVENS. It costs us $15 to $18 billion to support $30 billin worth of exports?

Mr. GOLDBERG. Plus domestic production.

Senator STEVENS. That is domestic production, surplus domestic production, available for export?

Mr. GOLDBERG. Yes, sir.

Senator STEVENS. But the Government can't see spending $50 to $100 million to maintain a merchant marine as far as you are concerned?

Mr. GOLDBERG. I think the Government—we support the merchant marine through the subsidy and the titles we reiterated before.

Senator DANFORTH. Mr. Goldberg, am I correct in believing that the international agricultural market is far more competitive now because of the high value of the dollar than it was a few years ago?

It is more difficult for Americans to succeed in international agricultural sales than it has been historically? Isn't that right?

Mr. GOLDBERG. That is a correct statement. That is true. Not only has the dollar affected it, but the increase in competition around the world has escalated. We have many countries that have gone from net importers to net exporters so that the competition is very fierce.

Senator DANFORTH. At the time of tough competition marginal differences can make all the difference in the world; isn't that correct?

Mr. GOLDBERG. That is correct.

Senator DANFORTH. Thank you.

Senator STEVENS. Thank you very much. We appreciate your coming.

[The following information was subsequently received for the record:]

QUESTIONS OF SENATOR INOUYE AND THE ANSWERS

Question. Inasmuch as the administration has said it supports existing cargo preference laws, is it fair to say that it is opposed to the current bills, all of which would narrow the scope of the cargo preference act?

Answer. The administration does not favor the expansion of cargo preference as would be required under the court decision of last February. Therefore, we would not object to legislation which would return the rules governing the application of cargo preference to the status quo as it existed prior to the court's decision.

Question. According to your statistics the ocean freight differential for tankers dropped from $50.37 per ton in 1982 to $18.44 per ton in 1983; and for bulkers from $41.14 per ton in 1982 to $32.45 per ton in 1983. Then, the cost of cargo preference went down correspondingly, did it not?

Answer. The cost of cargo preference as measured by ocean freight differential (OFD) payments in the P.L. 480, Title I program is determined not solely by U.S. flag rates, but by the difference between U.S. and non-U.S. flag rates and by the total tonnage of the program. Thus total OFD payments on shipments approved peaked at $107 million in CY 1982, declined to $65 million in CY 1983, and increased again to $76 million in CY 1984. We are projecting that total payments for CY 1985 will be in the range of $90–100 million.

Question. Some have urged that the cost of cargo preference be included in the DOT budget. If that were done, wouldn't it be logical to cut the Agriculture budget

by a corresponding amount, inasmuch as the present Agriculture appropriation includes money for the ocean freight differential attributable to cargo preference?

If that is so, is it not also true that cargo preference does not mean that less money is available for agricultural commodities?

Answer. For appropriated programs, such as P.L. 480, estimates of cargo preference costs are included in budget proposals and thus, in principle, are funded without diminishing commodity exports. For programs funded by the general resources of the Commodity Credit Corporation, such as the Section 416 program, cargo preference represents an added cost that reduces resources available for agricultural export and other programs.

Question. Some Agriculture experts cite our cargo preference laws as one of the reasons our farm exports are not competitive abroad. In view of this, I found a story in last Sunday's New York Times quite interesting. That article cited the testimony of expert witnesses before a House Agriculture Subcommittee on the question of why our farm exports are not competitive on the world market. This is what the experts said:

"The lack of competitiveness was ascribed to record grain and cotton crops in many parts of the world; to the strength of the dollar, which makes it more difficult for developing countries to buy American grains, cotton or dairy products; to competition from other countries that subsidize their farm exports, or to unrealistically high price support loan rates, which have the effect of holding the prices of American grains and cotton above what competitors can offer." I note that none of the experts cited cargo preference.

Answer. Since for 30 years successive administrations have considered the Cargo Preference Law not applicable to commercial export programs, and since commercial exports now represent over 95 percent of total U.S. agricultural exports, it is obvious that cargo preference is not now having a major impact on farm exports. However, attempts being made to extend cargo preference to the commercial export programs of the USDA do threaten a significant impact since such programs this year may cover some $5 billion in agricultural exports.

Question. This morning the Committee will hear testimony from the Soybean Association that application of the Cargo Preference Act to the Blended Credit Program will increase the cost of that program by over 650 percent for wheat and over 370 percent for soybeans. Now this is a statement of fact. Do you agree with these statistics?

Answer. Assuming that there would be no defaults on the guaranteed portion of the projected $536 million in blended credits, the only program cost to the government would be the interest foregone on the 20 percent portion involving direct credits. The amount of interest lost would depend on the Government's borrowing cost. If, for example, one assumes that this cost is 12 percent per annum, we estimate that the interest lost would total about $27 million. We also estimate conservatively that the ocean freight differential on about 1.6 million tons of blended credit cargo (50 percent of the total) would amount of $40–45 million. Thus applying cargo preference would increase the cost of the program from about $27 million to $67–72 million, about 250 to 270 percent. Should interest rates decline, this would decrease the interest buy down expenses of the government but increase the cargo preference portion of the total program cost.

Question. On at least 12 occasions DOT said cargo preference applied to the blended credit program, and USDA did not agree, and it continued to ship exclusively on foreign-flags.

(a) Since DOT is the agency charged by law with administering the Cargo Preference Act, shouldn't it have the final say as to whether or not the Act applies?

(b) Is there any mechanism for resolving these interagency disputes?

Answer. The DOT has primary responsibility for the administration of the Cargo Preference Act within the executive branch. Where differences develop between the USDA and DOT, it has been USDA's experience that they can be resolved through consultations between the two agencies. In the case of the Blended Credit Program, USDA and DOT, after a series of discussions, reached agreement that the use of U.S.-flag vessels would not be required.

Question. Isn't it true that USDA's only authority for saying that cargo preference did not apply to the Blended Credit Program, and consequently shipping 2 million tons of blended credit cargo on foreign bottoms, was its own say so, and its erroneous reliance on a non-binding opinion of the Attorney General? The reason I ask is that if I am correct it would seem the cargo preference law has no teeth, because it can be evaded pretty easily.

Answer. The administration decided that cargo preference was not required for the Blended Credit Program for two reasons. First, the blended credit program is a

commercial rather than concessional program. Sales under the Blended Credit Program are made on the best terms obtainable in light of prevailing world market conditions. This is consistent with long-standing Department of Justice opinions.

Second, requiring cargo preference would not be practicable. Since the additional cost of using U.S.-flag vessels would be greater than any benefits to the purchaser from the Blended Credit Program, purchasers would not participate in the program if the use of U.S.-flag vessels was required.

This decision was supported by both the USDA, which is responsible for administration of the Blended Credit Program, and the DOT, which has primary responsibility for administration of the cargo preference laws.

Senator STEVENS. Our next witness is the Honorable Helen Bentley from the House of Representatives.

STATEMENT OF HON. HELEN DELICH BENTLEY, U.S. REPRESENTATIVE FROM MARYLAND

Ms. BENTLEY. Thank you, Mr. Chairman, for giving me the opportunity to appear today to testify on S. 664 and other proposals to limit the application of our cargo preference laws. I know many experts will be testifying here today, Mr. Chairman, so I will keep my remarks brief.

I would like to say just a word about the concept of cargo preference.

First of all, we need to emphasize, again and again, that most other trading nations have Cargo Preference Programs that are far more broad and protective than our U.S. laws. Some of these nations have been practicing these policies for centuries, and these policies are employed to protect and develop their own merchant fleets for economic and national security reasons.

The Soviet Union is a good example of a nation that protects its merchant fleet and uses it as an instrument of its economic-defense policy.

Although the various bills being considered in this hearing are ostensibly designed to address the so-called Blended Credit Program, it is my understanding that, if enacted, this legislation could be broadly interpreted to include all the programs under Public Law 480, and could even possibly endanger the Foreign Military Sales Credit Program. Foreign flag vessels are already carrying over 94 percent of American's total waterborne foreign trade. Are the proponents of this legislation now proposing that we give 100 percent of our cargo to foreign competitors? Are we going to remain perfectly helpless and permit the destruction of a vital American industry?

The basic purpose of our cargo preference laws is to ensure the survival of an American merchant fleet adequate enough to carry at least a portion of our own international commerce.

As I warned during a recent speech to the Propeller Club, here in Washington, I am concerned about the hostility that is being generated against our maritime industry, and I am concerned about what appears to be an organized, methodical attack against our cargo prefence statutes.

This attack now threatens to destroy not only a Government program that, since 1954—and I would like to point out, Mr. Chairman, that cargo preference was enacted during the only time in recent decades that the Republicans controlled both the House and

the Senate—has at least helped our declining merchant marine fleet survive, but also threatens this industry itself.

During that same speech, I made a flat accusation that, during the calendar year 1983, the Department of Agriculture had flagrantly violated the Public Law 480 Programs, including title I, title II, and section 416 of the dairy donation programs. This situation was without precedent in the 30 years the Cargo Preference Act of 1954 has been in effect.

As might be expected, Agriculture officials who answered press inquiries regarding my charges either denied the fact that they had violated these laws, or were evasive with their answers.

I want to set the record straight by noting that the Maritime Administration has verified that my charges are accurate, and I have included with this statement a copy of an article that appeared in the Baltimore Sun which quotes a MarAd official who confirms my charges. With your permission, Mr. Chairman, I would like to present for the record certain letters from the Maritime Administration to these agencies on this matter.

As a result of these violations, many American flag vessels were denied their guaranteed right to carry 50 percent of the Government-generated cargo shipped under the Public Law 480 laws. This cargo went to foreign flag vessles, even though American flag ships were in position and available to carry the cargo.

I believe one of the problems with our cargo preference laws is they have no teeth. I have suggested that our existing laws be amended to provide penalties against any agency that breaks the law, and my staff is now working with counsel on the House Committee on Merchant Marine and Fisheries to accomplish that goal.

The law, Public Law 664, which S. 616 and other bills would substantially reduce in scope and authority, accounted in 1983, according to the Maritime Administration, for 37 percent of the total U.S. fleet's carriage. Destruction or serious reduction of this law would be a fatal blow to the merchant marine.

Our agriculture industry which exported more than 145 million tons in 1983, according to the Agriculture Department, is not threatened with extinction, but most assuredly, our merchant marine is. Public Law 664 impacted less than 2 percent of agricultural exports.

Let us not forget our history. Before both World Wars, we let our merchant marine seriously decline, only to embark on a crash program and spend billions of dollars to get the industry back to where it could support our national defense. Unfortunately, we will not have the luxury next time to rebuild it. Nor should we let it die only to be held hostage by foreign nations' merchant fleets, which, I assure you, will occur if we lose our industry.

I would like to close by expressing the hope that our maritime and agriculture industries will be able to resolve this problem through cooperation, rather than through an adversarial relationship.

Both industries are having serious problems, and both are essential to our national well-being. They need each other. So, I hope we can all work together for our mutual benefit and for the total welfare of our great Nation.

Thank you.

[The article referred to follows:]

[From the Sun (Baltimore, MD), Apr. 20, 1985]

CARGO PREFERENCE VIOLATIONS VERIFIED

(By Miles Maguire)

Five government programs have violated federal cargo preference laws, a spokesman for the Maritime Administration said yesterday.

The Marad spokesman, Clyde Ball, confirmed charges by Representative Helen Delich Bentley (R, Md., 2d) that the U.S. Department of Agriculture had failed to use U.S. flag vessels for 50 percent of the cargoes shipped during 1983 under three different food-aid programs.

In addition, Mr. Ball said, the Agency for International Development and the National Aeronautics and Space Administration failed to reserve 50 percent of their cargoes to U.S. flag vessels in 1983. He said these agencies were in the process of being notified of the violations.

AID yesterday denied that it broke any law. USDA has said that it did not meet the 50 percent test in all cases but played down the significance of its violation. Efforts to obtain comment from NASA were unsuccessful.

The United States has three major cargo preference laws. Two of them, covering items owned or procured by the military and cargoes generated by the Export-Import Bank, require virtually 100 percent use of U.S.-flag vessels.

The third statute, the Cargo Preference Act of 1954, stipulates that at least 50 percent of other international shipments by the federal government be carried on U.S.-flag ships. Marad monitors 54 "agencies, independent establishments and government corporations" to ensure compliance, Mr. Ball said.

Cargoes shipped under this law totaled 14.6 million tons and brought $465.6 million in revenues to owners of U.S.-flag vessels in 1983, the latest year for which complete statistics are available.

Waivers can be obtained in some cases, and the laws do not apply if U.S.-flag service cannot be easily arranged.

But in the five programs cited by the Maritime Administration, "U.S.-flag service was available on a timely basis to have enabled the agency to meet the cargo preference requirement," Mr. Ball said, quoting from a Marad report that has not yet been published.

Based on figures supplied by Marad, compliance with the law would have brought only an additional 200,000 tons of cargo to U.S.-flag operators. Representative Bentley, however, is concerned because the cargo preference laws do not include provisions for enforcement or penalties.

She has suggested that the funds for government shipments be shifted from individual agencies to Marad. She also is drafting legislation that would include penalties for agencies that do not meet the 50 percent requirement.

Senator GORTON [presiding]. Thank you very much.

Senator Inouye, any questions?

Senator INOUYE. All you can say is amen.

Senator GORTON. We appreciate your coming and being with us this morning.

The chairman has asked me to say that we will reconvene at 2 o'clock. We will, however, for the relief of all of those in the back, reconvene in room 253, the regular Commerce Committee hearing room.

With that we stand in recess.

[Whereupon, at 11:55 a.m., the subcommittee recessed, to reconvene at 2 p.m., the same day, in room SR-253 of the Russell Senate Office Building.]

AFTERNOON SESSION

Senator STEVENS. We will start the afternoon with the panel of James Holloway, Frank Drozak, Jesse M. Calhoon, Thomas L. Mills and Samuel Nemirow.

It is our intention to spend an hour with each panel here this afternoon.

You are lucky, Admiral, you are first in line. You made the request to go first. That is easy to accommodate.

STATEMENT OF ADM. JAMES L. HOLLOWAY III, PRESIDENT, COUNCIL OF AMERICAN-FLAG SHIP OPERATORS

Admiral HOLLOWAY. Thank you, Mr. Chairman.

Senator STEVENS. Please proceed.

Admiral HOLLOWAY. I am Adm. James Holloway, president of the Council of American-Flag Ship Operators. My statement is on the national defense role of the U.S. merchant marine.

I have a full statement I would like to have included in the record. I would like to present a brief oral summary if I may.

Unless the United States goes to war in Canada or Mexico—a rather unlikely turn of events—the U.S. merchant marine is going to play an essential if not crucial role in any future conflict. The reason is that every other potential ally or adversary lies overseas.

There is no plan for any major overseas military operation, whether it be a general war involving the Soviet Union or a contingency operation in some remote corner of the globe, that does not involve the use of the seas for the injection of our military forces and the sustaining of American presence in the area.

In their 1986 posture statement to the Congress, the Joint Chiefs of Staff stated:

> In any major overseas deployment, sealift will deliver about 95 percent of all dry cargo and 99 percent of all petroleum products. Ships from the U.S. merchant marine represent the largest domestic source of sealift, making them an important strategic resource.

Current military planning depends upon the U.S. merchant marine to provide more than two-thirds of the U.S.-flag sealift.

The U.S.-flag merchant marine is needed to carry out specific strategic requirements for which Government-owned shipping is not available, and which would be uneconomical for the Government to maintain in peacetime for fluctuating contingency requirements.

The merchant marine's role in national defense is to provide transportation for our military forces while continuing to carry the international and domestic commerce of the United States.

As a matter of day-to-day policy, the Department of Defense relies upon the American-owned, citizen-crewed vessels of the U.S.-flag merchant marine to provide reliable and secure transportation of military cargo.

In time of crisis or conflict, the U.S.-flag merchant marine is the principal domestic source of strategic sealift to deploy our military forces overseas and to reinforce and resupply our allies and our own forward emplaced units, augmenting the organic sealift elements of the Navy and the ready reserve force of the national defense reserve fleet.

Airlift is planned for the rapid movement of troops to join up with prepositioned equipment and for the fast delivery of small amounts of critical supplies and materiel. But airlift is severely

limited in terms of its ability to move outsized equipment and in the total volume that can be lifted.

Also, airlift is a notorious consumer of fuel. According to the JCS, experience during the 1973 Yom Kippur War with our airlift support of Israel showed that 6 tons of aviation fuel was required for every ton of military cargo delivered in Tel Aviv.

All kinds of commercial cargo ships are useful for sealift. The more modern types of cargo ships such as container vessels, enormously speed up the cargo handling of military support. The Navy has made a heavy investment in programs to adapt commercial container ships for moving military cargo. It is estimated that 80 percent of all military resupply can be containerized.

In a general war with the Soviet Union, the United States can expect substantial sealift help from the merchant fleets of our allies: Japan, Korea and the NATO countries. But a more likely scenario is a limited conflict similar to Korea or Vietnam. Under these circumstances the United States must depend upon American flag shipping for responsive and reliable sealift.

U.S.-owned foreign registered vessels operate under the sovereign flag of an alien government, and historical experience has shown that they may not be as dependable as U.S.-flag shipping. A further drawback is the small number of militarily useful dry cargo ships in the flag of convenience inventory.

The reliability of the national defense reserve fleet is also questionable. It includes 193 dry cargo ships, but about 140 of these are World War II hulls. Their usefulness, questionable now, will rapidly decline in ensuing years.

Today the U.S.-flag commercial fleet constitutes more than two-thirds of the available resources for U.S. strategic shipping.

In 1988 the U.S.-flag sealift requirements can only be met by expanding the defense ready reserve fleet to its maximum feasible size, mobilizing the entire commercial U.S.-flag cargo fleet, and equipping the commercial container ships with special adapters for military cargo.

The mobilization of the entire U.S. merchant marine would mean stripping the trade routes of the world of U.S.-flag commercial ships.

The U.S. merchant marine is a privately-owned fleet of commercial vessels, with the responsibility for its promotion and regulation residing in the Maritime Administration and the Federal Maritime Commission.

However, the capacity, readiness and military suitability of our merchant marine are of vital concern to all Americans because of its strategic role in our national security posture. In time of war or national emergency the assets of the American merchant marine—ships, facilities and people—become a part of the military forces of the United States.

The most recent Department of Defense analyses have concluded that the U.S. merchant marine is the critical factor in meeting our essential sealift requirements in support of our basic military planning.

Consequently, the U.S.-flag merchant marine cannot be permitted to further decline if we are to maintain the credibility of our

foreign policy and our national strategy of a collective forward defense.

Thank you, Mr. Chairman.

Senator STEVENS. Thank you very much, Admiral. I agree with you.

I don't have any questions.

Senator?

Senator INOUYE. Everything I wanted to say you said so well, sir.

Senator STEVENS. Thank you very much. We appreciate your statement. We wish you bon voyage.

Admiral HOLLOWAY. Thank you, Mr. Chairman.

[The statement follows:]

STATEMENT OF ADM. J.L. HOLLOWAY III, PRESIDENT, COUNCIL OF AMERICAN-FLAG SHIP OPERATORS

U.S. MERCHANT MARINE AND OUR NATIONAL SECURITY

Unless the United States goes to war in Canada or Mexico—a rather unlikely turn of events—the United States merchant marine is going to play an essential if not critical role in any future conflict involving the United States. The reason is that every other potential ally or adversary lies overseas. There is no plan for any major overseas military operation, whether it be general war involving the Soviet Union or a contingency operation in some remote corner of the globe, that does not involve the use of the seas for the injection of our military forces and the sustaining of American presence in the area. Today the U.S. merchant marine to would provide more than two-thirds of the available U.S. flag sealift. (Chart 1)

The philosophy upon which our national security is based—a forward collective defense—is a maritime doctrine. Our foreign policy and our national defense are based on a military strategy which utilizes the oceans as barriers in the defense of the United States, and as avenues for linking the alliances of the free world. This maritime strategy exploits the principle that if we must go to war we intend to engage the enemy closer to his border than to ours. The concept depends upon overseas allies, forward deployed U.S. military forces, and the armed mobility to respond to crises around the world that could threaten the vital security interests of the United States and its allies.

Forty of our forty-two allies lie overseas. The United States maintains four Army divisions in Germany, one in Hawaii, another in Korea, and a Marine division in Japan. In time of crisis or war these allies and our own overseas forces are going to have to be reinforced and resupplied.

There are twelve active U.S. Army and Marine divisions located in the United States. If they are to join battle with an enemy they must be transported overseas.

The success of this forward strategy depends upon our ability to maintain the lines of communication between the United States and our allies, between our continental bases and our forward deployed forces, and between the United States and those areas of the world from which we must receive those raw materials critical to our economy, such as oil from the Persian Gulf.

Because of the enormous quantities of combat support demanded by the mobility and firepower of our modern ground forces, most of this supply and reinforcement must go by sea. In their 1986 Posture Statement to the U.S. Congress, the Joint Chiefs of Staff stated:

"In any major overseas deployment, sealift will deliver about 95% of all dry cargo and 99% of all petroleum products. Ships from the U.S. merchant marine represent the largest domestic source of sealift, making them an important strategic resource."

The merchant marine's role is to provide transportation for the deployment of U.S. military forces and deliver sustaining support to our allies and our own overseas troops, while continuing to carry the international and domestic commerce of the United States. The deployment of U.S. Central Command forces to the Southwest Asia theater of operation would require the mobilization of the entire American merchant marine.

This overwhelming reliance on sealift is understandable when one considers the enormous quantities of war materiel demanded by the mobility and firepower of modern ground forces. For example, the Military Sealift Command estimates that

more than 100,000 tons of cargo are required to deploy a single mechanized division. When overseas, that division will need more than 1,000 tons per day delivered to sustain it in operation.

"To establish some perspect on the magnitude of the problem, consider a force with a man-strength of 150,000. This might be an austere combat force package of approximately four light ground combat divisions (Army and Marine), five tactical fighter wings (Air Force and Marine), and minimum air and ground supporting forces. This force would weigh about 270,000 tons. If the force were armour or mechanized, the tonnage might be from 150% to 200% of that amount." (Report to the Interagency Committee on Maritime Policy by the Subcommittee on National Security, 15 July 1982.)

Airlift is planned for the rapid movement of troops to join up with prepositioned equipment, and for the fast delivery of small amounts of critical supplies and materiel. But airlift is severely limited in terms of its ability to move outsized equipment and in the total volume that can be lifted. A large portion of the organic equipment of modern armies such as bulldozers, bridges, helicopters, and tank retrievers will not fit in most aircraft. One of the most modern containerships can deliver the equivalent cargo of more than 200 C-5 aircraft. Also, airlift is a notorious consumer of fuel. According to the JCS, experience during the 1973 Yom Kippur War with our airlift support of Israel showed that six tons of aviation fuel was required for every ton of military cargo delivered in Tel Aviv.

In recognition of the importance of sealift, the Secretary of the Navy announced in May of 1984 that the major functions of the U.S. Navy were being expanded to include strategic sealift as the third major function of the Navy, joining sea control and power projection, which for years had been the two functional bases for naval force requirements. Now the Navy has three functions—sea control, power projection and strategic sealift.

The Secretary of the Navy is the single manager for ocean transportation. The operating agency for ocean transportation is the U.S. Navy's Military Sealift Command, which provides the strategic sealift and ocean transportation capability to deply and sustain military forces anywhere in the world. Strategic sealift is the fastest growing segment of the Navy budget, reflecting its importance to national defense. In 1984 the Navy budget for sealift was twice as much as in 1981 and 1982 combined.

It should be pointed out that military sealift, or more explicitly strategic military sealift, does not include the functions of resupplying naval combat forces at sea--the battle forces--nor the transportation of the assault echelons of Marines in combat landings.

SEALIFT ASSETS

There are two principal types of ships for strategic military sealift: tankers and dry cargo (or general cargo) ships.

Tankers are mainly used to transport liquid petroleum fuel. In some theaters of operations such as Southwest Asia, tankers will be required to carry potable water.

Dry cargo ships carry general cargo, vehicles, supplies, weapons and ammunition. General cargo ships are usually referred to as liners because of their commercial utilization as common carriers operating on established schedules. Liners include break-bulk ships, container ships, roll on/roll off vessels (Ro/Ro), and barge carriers (LASH, SEABEE). All of these, according to the Military Sealift Command are useful for military sealift.

SUITABILITY OF COMMERCIAL SHIPS

There has been some concern that the U.S. flag merchant marine, with its trend toward containerization of the general cargo fleet, is not well suited for the military sealift mission. The facts are that all kinds of cargo ships are useful for sealift purposes—breakbulkers, barge carriers, roll on-roll off, and container ships—according to the Military Sealift Command. Breakbulk ships are useful in undeveloped areas where no cargo handling facilities are available, but the disadvantage of breakbulk ships is their very slow rate of cargo loading and discharge. With the volume of materiel that must be moved to support modern ground forces, this deficiency could cause paralyzing jams in the logistic pipeline. The more modern types of cargo ships—ro-ro, barge and container vessels—enormously speed up loading and discharge, and deliver the military support in a form that enables the cargo to be rapidly distributed to inland depots, avoiding the dangerous concentration of materiel at the port areas.

Our experience during the Vietnam war is a good example of the effective employment of a commercial sealift fleet of varied composition. Breakbulk ships were used during the early part of the conflict until a modern container port could be constructed at Cam-Ranh Bay. From then on the most efficient movement of military supplies was through containers.

Containerization has revolutionized the liner industry. The efficiency of modern freighters with mechanized cargo handling equipment has so increased liner productivity that breakbulk vessels, with their slow turn-around times and large crews are no longer economically competitive in most commercial trades. The same technological revolution applies to military sealift. The older breakbulk freighters, with their slow loading and discharge are no longer suitable for the massive amounts of logistic support demanded by our modern ground and air forces.

The U.S. Navy is adapting its military logistics concepts to take advantage of the advanced commercial technology in cargo handling and generating a revolution in military sealift techniques that will vastly increase the productivity of the whole sealift fleet. The Department of Defense is making a heavy investment in programs to develop and employ new equipment such as flat racks and sea sheds which will greatly expand the utility and efficiency of container ships for the movement of military cargo. The Navy estimates that 80% of all military resupply materiel can be containerized.

SOURCES OF SEALIFT

The sources of ships for the military sealift function, in order of reliability and usefulness are listed in the following:

Military Sealift Command (MSC): The MSC owns 4 general cargo ships and 8 tankers suitable for sealift. Over the next 5 years, 8 fast sealift ships and 13 prepositioned ships will be added to the MSC sealift fleet. However the MSC active strategic sealift force includes about 35 operational vessels on charter from the U.S. merchant marine.

Ready Reserve Force (RRF): The RRF, which is included in the NDRF, consists of 50 dry cargo ships and 8 tankers maintained in a 5 to 10 day readiness status. It will be expanded to about 110 ships by 1990.

U.S. Merchant Marine: The U.S. flag privately owned fleet includes about 235 tankers and 205 general cargo ships, considered by the MSC to be useful for military sealift functions.

As of 1 January 1985, the active fleet consisted of:

Breakbulk	62
Lash/Seabee	19
Container	97
Ro/Ro	27
Bulk Cargo	19
Other	11
Tankers	235

Effective U.S. Controlled Fleet (EUSC): It is planned that some EUSC ships—U.S. owned ships under foreign registry—be requisitioned for U.S. military sealift use in an emergency. These are commercial ships owned by U.S. citizens but registered under the laws of some other country—mainly Liberia, Panama, and Honduras—to take advantage of lower capital and operating costs, as well as substantial financing, regulatory and tax advantages. This is also referred to as the "Flags of Convenience". The question has frequently been raised as to whether these ships would be available to the U.S. in times of emergency. Critics of the EUSC fleet point out that in 1973, the President of Liberia reaffirmed his country's support of the Arab position in the Yom Kippur war, by issuing an Executive Order forbidding all vessels of Liberian registry (of which there are about 385 under U.S. ownership) from delivering U.S.-Israeli war supplies to the Middle East for the duration of that conflict.

The conclusion must be that EUSC shipping may or may not be available on a country by country basis, depending upon the nature of the crisis and the issues involved. The basic fact is, it cannot be depended upon in all cases, as can U.S. flag shipping.

However, the reliability of EUSC shipping may not be that important. All but a handful of these U.S. owned foreign registered ships are extra large bulk carriers and cannot fulfill the MSC requirement for general cargo freighters or "handy" size tankers. Even if these foreign flag and alien crewed ships were made available for U.S. requisitioning, the small number of militarily suitable dry cargo ships in the EUSC fleet is only 20 or less, and does not constitute a significant sealift resource.

National Defense Reserve Fleet (NDRF): The NDRF includes 193 dry cargo ships. About 150 of these and 30 tankers are laid up in "mothballs", and would require 30 days to 6 months for activation.

There are serious questions as to how many of the ships in the NDRF actually represent useful sealift assets. For example about 140 of the general cargo ships are World War II hulls built in 1945 or prior. Many of these were extensively used before being retired and are badly worn and prone to failure. Other ships have had less hard use, but are equipped with machinery which was manufactured many years ago and for which there are no replacement parts or support equipments.

The Maritime Administrator who is responsible for the NDRF said in a recent report to the JCS:

"MARAD has extreme reservations as to the continued viability of many ships in the NDRF, particularly those with construction dates prior to 1950. No ship forty years of age or older can be considered to be a reliable asset in time of emergency. Our planning should so indicate."

CONCEPT OF SEALIFT OPERATIONS

The current solution as well as the long range operational concept for strategic sealift is a combination of ready and reserve U.S. government assets and the U.S. merchant marine.

"Army and Marine Corps units for which we have not prepositioned equipment (ashore such as POMCUS) would, in most cases, deploy by sea. Fast sealift and amphibious ships would be the first to arrive, followed by government controlled conventional shipping and ships requisitioned from the U.S.-flag fleet." (SECDEF FY 85 Posture Statement)

In a general war with the Soviet Union, the United States can expect substantial sealift help from the merchant fleets of our allies: Japan, Korea and the NATO countries. But a more likely scenario than a general war with the Soviet Union is a limited conflict similar to Korea or Vietnam. Under these conditions we cannot plan on the use of any ships other than those flying the American flag.

For example, Southwest Asia—the region embracing the Middle East and the Persian Gulf—is a theater of critical importance to the United States for both political and economic reasons. The probability of trouble in this region is high. For these reasons, a new military theater, the U.S. Central Command, has been established for this region, and rapid deployment forces are being tailored for operations in this theater. Secretary of Defense Weinberger in his 1984 Posture Statement said:

"Our current programming for rapid deployment forces focuses primarily on Southwest Asia . . ."

For the deployment of U.S. forces into Southwest Asia in a contingency operation, the United States must depend upon U.S. flag shipping. History has consistently demonstrated that our allies are not going to participate in unilateral U.S. military operations, especially those involving Arab or Moslem countries.

ADEQUACY OF SEALIFT RESOURCES

In 1983 the Office of the Secretary of Defense and the Department of the Navy engaged in several studies relating to sealift and shipbuilding in order to formulate a basis for new initiatives in the area of maritime policy. The long standing problems associated with our U.S. flag shipping and shipbuilding industries were recognized as beginning to impact adversely on national security.

Of the study effort relating to sealift, only the part dealing with the movement of general cargo has been completed.

The study examined the shipping resources available during war time from the three sources of government controlled and reserve fleets, U.S. flag commercial shipping, and allied commercial shipping. It established military sealift capability objectives for sealift under both global and crisis response scenarios.

Under the current planning scenarios, the United States will rely on shipping assistance from NATO and Northeast Asia allies to meet military surge and sustaining requirements in those respective geographic areas.

The U.S. owned Effective U.S. Controlled (EUSC) fleet was not used in these studies. The Department of Defense did not consider that it could make a significant contribution to military support shipping. The fleet of 399 U.S. owned vessels registered in Panama, Honduras, Liberia and the Bahamas is mostly comprised of large crude oil carriers and dry bulk ships. While availability has been considered a risk issue, suitability remains the principal detractor to use of this fleet.

The military dry cargo requirements for U.S. flag sealift was derived from the Southwest Asia portion of a global war. To meet the Southwest Asia needs, suffi-

cient shipping capacity must be available from U.S. flag sources to move about 800,000 short tons of military unit equipment during the initial movement, and about 1.7 million short tons of resupply and ammunition during sustaining operations. Delivery of that amount of cargo on time would require about 4.6 million deadweight tons (MDWT) of shipping to be available for the initial delivery, and an additional 3.3 MDWT to be available to sustain the operations.

At the present time only about 2.9 MDWT is available from current assets, of which the U.S. flag merchant marine contributes about 2 MDWT or more than two thirds. By 1988 the U.S. flag's sealift position is expected to improve to the point where it can handle about 90% of the requirement with the improvement coming mainly through an expansion of the Ready Reserve Fleet and the utilization of seasheds and flatracks aboard container configured commercial ships. This latter program, under which 50 U.S. flag containerships will be modified during a contingency to carry military unit equipment, will add an additional 800,000 DWT capacity to the U.S. flag commercial fleet and will enable the national strategic sealift objective to be satisfied. (See chart 1.)

This current inability of U.S. flag sealift assets to satisfy military strategic lift requirements is of substantial concern to the Department of Defense. In a letter to the Secretary of Transportation, Secretary of Defense Weinberger said:

"The decline of the U.S. maritime industries over the past several years has generated significant interest in the merchant marine's capability to support the President's national security objectives. . . . The decline in U.S. flag commercial shipping capable of carrying military unit equipment is of particular concern to DOD. . . . Even assuming that the entire U.S. merchant marine is made available to support military requirements, we may not be able to meet DOD's limited policy objectives. A merchant marine, even if it were capable of supporting military operations, may not be adequate to satisfy all of our national security requirements during a major conflict. I have not included the civil economy and the industrial base in DOD's statement of maritime requirements." (24 April 1984.)

The Persian Gulf scenario provides a pragmatic example in simpler terms which may be easier to appreciate. According to the Commander Military Sealift Command (MSC) who is responsible for providing strategic sealift, about 350 dry cargo ships would be needed to sustain the deployment to the Indian Ocean region of the combat forces earmarked for rapid deployment contingencies. Yet the total U.S. flag general cargo sealift available would fall in the range of 290 to 430 ships, depending upon the existing condition of the reserve fleets. This would be a modest cushion or a 60 ships shortfall in the Central Command requirement. In any case, to requisition all 240 general cargo ships in the U.S. merchant marine for military sealift duties would remove every U.S. flag liner from the trade lanes of the world, both domestic and overseas. Clearly this is an action that would have to be most carefully considered and taken only in the most severe emergency. The abandonment of the U.S. trade lanes—including the domestic commerce which now by law excludes foreign ships—to foreign flags would have the most adverse long term consequences.

SUMMARY

The United States merchant marine is a critical component of this country's defense forces, required for the successful execution of our most important and essential military plans.

Current military planning depends upon the U.S. merchant marine to deliver more than two thirds of the available U.S. flag sealift.

There is no plan for any major overseas military operation, whether it be a general war involving the Soviet Union or a contingency operation in some remote corner of the globe that does not involve the use of the seas for the injection of our military forces and the sustaining of American presence in the area.

In any major overseas deployment sealift will deliver about 95% of all dry cargo and 99% of all petroleum products.

The merchant marine's role in national defense is to provide transportation for the deployment of U.S. military forces and to deliver sustaining support to our allies and our own overseas forces, while continuing to carry the international and domestic commerce of the United States.

As a matter of day to day policy, the Department of Defense relies upon the American owned, citizen crewed vessels of the U.S. flag merchant marine to provide reliable and secure transportation of military cargo.

In time of crisis or conflict, the nationl depends upon the U.S. flag merchant marine as the principal domestic source of strategic sealift to deploy our military forces overseas and to reinforce and resupply our allies and our own forward em-

placed units, augmenting the organic sealift elements of the Navy and the Ready Reserve Force of the National Defense Reserve Fleet.

The U.S. flag merchant marine is needed to carry our specific strategic requirements for which government owned shipping is not available, and which would be uneconomical for the government to maintain in peacetime for fluctuating contingency requirements.

All kinds of commercial cargo ships are useful for sealift—breakbulk, barge carrier, roll on-roll off, and containerships—according to the Military Sealift Command. The more modern types of cargo ships such as container vessels enormously speed up the in-port cargo handling and deliver the military support in a form that enables the cargo to be rapidly distributed to inland depots, avoiding the dangerous concentration in port areas. The Navy is adapting its logistic systems to take advantage of advanced commercial technology in cargo handling, and made a heavy investment in programs to develop and employ new equipment to expand the efficiency of commercial ships in moving military cargo. The Navy estimates that 80% of all military resupply can be containerized.

In a general war with the Soviet Union, the United States can expect substantial sealift help from the merchant fleets of our allies: Japan, Korea, and the NATO countries. But a more likely scenario than a general war with the Soviet Union is a limited conflict similar to Korea or Vietnam. Under these circumstances the U.S. must depend upon American flag shipping for responsive and reliable sealift.

U.S. owned foreign registered vessels, known as flag of convenience ships, operate under the sovereign flag of a foreign government and historical experience has shown that they may not be dependable in all cases, as U.S. flag shipping will be. A further drawback to this foreign source is the small number of militarily useful dry cargo ships.

The National Defense Reserve Fleet as a source of sealift is questionable. It today includes 193 dry cargo ships but about 140 of these are World War II hulls built in 1945 or prior. Their usefulness, questionable now, will rapidly decline in ensuing years.

In 1985 the U.S. flag commercial fleet will constitute more than two thirds of the available resources for U.S. strategic shipping. In 1988 the U.S. flag requirements can only be met by expanding the defense Ready Reserve Fleet to its maximum feasible size, mobilizing the entire commercial U.S. flag cargo fleet, and equipping the commercial containerships with special adaptors for military cargo. The mobilization of the entire U.S. flag merchant marine would mean stripping the trade routes of the world of all U.S. flag commercial ships.

The U.S. flag merchant marine is a privately owned fleet of commercial vessels, with the responsibility for its promotion and regulation residing in the Maritime Administration and the Federal Maritime Commission. However, the capacity, readiness and military suitability of the privately owned commercial fleet of the U.S. flag merchant marine are of vital concern to all Americans because of the essential role in strategic sealift. In time of war or national emergency the assets of the American merchant marine—ships, facilities and people—become a part of the military forces of the United States.

Current Department of Defense analyses have concluded that the U.S. merchant marine is the critical factor in meeting our essential sealift requirements in support of our basic military planning. Consequently the U.S. flag merchant fleet can not be permitted to further decline if we are to maintain the credibility of our national strategy of a collective forward defense.

STRATEGIC MILITARY SEALIFT ASSETS VERSUS REQUIREMENTS

(In Millions of Deadweight Tons of Capacity)

From U.S. Navy data (March 1985)

Senator STEVENS. I understand there has been an agreement reached that we can now turn to Mr. Calhoon, Mr. Mills, Mr. Drozak, and then Mr. Nemirow.

STATEMENT OF JESSE M. CALHOON, PRESIDENT, MARINE ENGINEERS' BENEFICIAL ASSOCIATION

Mr. CALHOON. Thank you, Mr. Chairman.

Mr. Chairman, I have submitted a longer written statement for the record. In the interest of saving time, I will summarize its contents.

Mr. Chairman, I am pleased to testify today as president of the National Marine Engineers' Beneficial Association which represents more than 10,000 American merchant marine officers. We strongly oppose the anticargo preference legislation that is before this committee.

I am also pleased to testify as a farmer. Our union has a large farm in Maryland that grows corn and soybeans, and I grew up on a farm in North Carolina. That small patch of land in North Carolina is still as much a part of me as every ocean on which I have sailed.

Indeed, I am proud to say that I have probably spent more time on a farm than most of those before this committee today who are supposed to be representing the farmers on this issue.

I make this point about my farm background, because I believe that while these bills would severely penalize the United States

merchant fleet, they also offer little—indeed no—meaningful benefit to the American farmer.

Mr. Chairman, let me be very blunt. I think that American farmers are being misled. They are being misled by those who are using the blended credit cargo preference issue as a smokescreen to obscure the fact that nothing effective is being accomplished or even seriously contemplated to help our farmers in a time of genuine crisis.

I think the American farmer deserves better.

Mr. Chairman, in my written statement I have been tough on the Secretary of Agriculture. I have been tough and blunt, because I think that the American farmers deserve better. They need help, and if we think the situation out there is bad this year, then let me quote the President's most famous line: "You ain't seen nothing yet."

As a Nation we have not begun to face the full implications of our national debt and the crisis just around the corner. The farmers are starting to face it; they are already hurting. But for most of America it is still a bit like the summer of 1914.

Faced with this coming crisis, I do not think that leadership consists of using one industry or one group in a society as the scapegoat for the problems of another. That is not leadership, whether the issue is Social Security, or veterans' benefits, or farm exports.

Leadership seeks area of mutual benefit and mutual sacrifice, if sacrifice is required. Leadership brings different interests together. It does not consciously drive them apart.

I believe that our two industries can work together. We both want the blended credit exports to go forward immediately. And we both want a U.S. flag transportation costs to be as low as possible.

If we can achieve these two objectives, then we can avoid today's impasse, and we can avoid a prolonged war over cargo preference that will be with us in growing intensity as the deficit crisis hits every sector of America in the coming years.

I think that both our industries have a lot more to worry about than each other.

With this in mind, I would propose the following to address both short and longer term issues. The centerpiece of what I propose is to lower, substantially, U.S. flag rates for the carriage of agricultural preference cargoes. This would be combined with immediate resolution of the current impasse on the blended credit program so that these cargoes can move now.

Mr. Chairman, let me begin with the immediate problem, blended credit exports.

As you might imagine, I believe that blended credit exports belong under cargo preference. I also believe that the Secretary of Agriculture could, at a moment's notice, get these exports moving again by dropping his objections and funding the very small U.S. flag differential out of department funds, as by law should already be the case.

Mr. Chairman, as I listened to the testimony this morning, it sounded to me like Senator Goldwater's position on the Panama Canal: We stole it fair and square and we are going to keep it.

We have a clear reason to believe that the Commodity Credit Corporation has the funds available to pay the differential for the

U.S.-flag share of these exports. The money is there and I would urge this committee to seek and receive a response from the Secretary of Agriculture on this point.

During the entire debate over the blended credit issue, for over 2 years, the Secretary has not been able to prove that funds were not available.

This is the best solution, get the Secretary of Agriculture to do what the law clearly requires, not destroy more than half a billion dollars worth of badly needed exports to stretch his point in a case where the court has already ruled against him.

However, because it is important to move these cargoes soon, before the recipient nations turn elsewhere, and because Secretary Block refused to consider any solution except his own, I also propose a solution which will permit blended credit cargoes to move immediately at no cost to the Department of Agriculture, if no other course is possible.

This solution also would allow available U.S.-flag vessels to participate in the program where such vessels are modern and efficient and their transportation costs are fair and reasonable.

Furthermore, such a solution can be implemented within existing appropriations. To accomplish this, legislation should be introduced to authorize the Maritime Administration to transfer to the Department of Agriculture on a one-time basis only unobligated operating-differential subsidy or other available funds to pay the ocean freight differential between United States and foreign operators for the remainder of the current Blended Credit Program that we understand expires on September 30 of this year.

In proposing this, I fully recognize that funding may be inadequate to assure carriage of the full 50 percent of the blended credit cargo reserved by law for U.S.-flag vessels. Under this proposal blended credit cargoes may move on foreign vessels if funding for U.S.-flag carriers is not sufficient.

We do not believe this will happen, but we offer it.

But, Mr. Chairman, no one is served by the current stalemate and escalating threat and counterthreat. This solution would help both industries. Blended credit exports would move for our farmers, and the U.S. merchant marine would carry some of the cargoes. The outcome is in the best interest of both sides. And I appeal to everyone concerned to consider it carefully.

However, Mr. Chairman, I believe that we must also go beyond the immediate issue and focus on some longer term initiatives that can reconcile, not divide, farmers and the merchant marine.

The key, I believe, is to make the U.S.-flag fleet as modern and efficient as possible so that we can provide U.S. freight rates which are competitive on the world market.

I would begin by recommending that U.S.-flag participation in the agricultural cargo preference trades, including, but not limited to title I and title II of Public Law 480, be limited to modern, efficient vessels whose rates are fair and reasonable and most closely approach current world shipping rates.

In no case should the age of these vessels be beyond the useful economic life of such vessels as established by the Maritime Administration. These words may sound like generalities. In practice, they would make an enormous difference.

The newest U.S.-flag vessels have been able to lower rates by 50 percent or more. In fact there are already modern U.S.-flag vessels in operation that carry bulk agricultural cargoes at world competitive rates of $34 a ton, far below previous rates that were as high as $137 a ton.

In the same legislation proposed to resolve the present blended credit issue, the Congress should initite a comprehensive reform of the preference trades in agricultural commodities and a prompt revitalization of the U.S.-flag dry bulk fleet.

The initial elements of this program would be some reengining of existing U.S.-flag tonnage, in U.S. shipyards with no restriction on source of components, to achieve fuel efficiency and reduced manning; and the establishment of permanent authority to enable owners to build vessels abroad at competitive world prices with no Government assistance.

I would draw attention to my use of the words "dry bulk." As you know, I am for build foreign for any type vessel, but for the purpose of achieving a prompt solution, I would limit action in this case to dry bulk vessels only.

In the Department of Transportation I would recommend that a new joint Federal chartering entity be established from existing appropriations, personnel and administrative resources within USDA, AID, and DOT. This new entity would be charged with direct responsibility for vessel selection and negotiation of transit rates whenever a Federal agency is either financing or paying for ocean freight.

This reform is important because currently freight rates are often unnecessarily increased during the tendering process by foreign agents, middlemen, and brokers. I should note that this reform would lower transportation costs on all U.S. Government-generated agricultural exports, since removal of the foreign country influence on U.S.-flag rates would surely drive down the foreign flag rates as well, and one should never forget in any discussion on cargo preference that foreign flags crary at least 50 percent and often more of U.S. Government-generated farm exports.

I would also recommend that the joint chartering entity in the Department of Transportation be granted full authority to negotiate long-term charters, consecutive voyage charters and contract of affreightment.

Indeed, all chartering activities for this new office should be done in such a way as to maximize competition and assure the lowest possible freight rate.

I want to emphasize that funding for payment of ocean freight rate differentials would remain unchanged from the present practices. This new entity would serve solely as a booking agent to responsible shipper agencies.

Mr. Chairman, that in outline is what I would propose to this committee and to those in both our farming and maritime communities. I belive that offers the framework for a constructive solution that can meet the true needs of each side. It is a solution designed to end the problem, not to perpetuate one.

I offer it for your consideration with that in mind. I stand ready to work with you, with my colleagues in the maritime industry, and with my friends in American agriculture to design an outcome

that puts all of us back where we belong, on the same side working together.

The future for all of us will accept no other alternative if we are to survive.

Thank you.

Senator STEVENS. Thank you very much.

Do you have a bill prepared like that?

Mr. CALHOON. No, sir, but I can have one tomorrow morning.

Senator STEVENS. I would like to take a look at it.

Senator Inouye.

Senator INOUYE. Thank you, Mr. Chairman.

Mr. Calhoon, under your proposed bill the unobligated operating differential subsidy money will be used for this purpose on a one-time-only basis?

Mr. CALHOON. Yes, sir.

Senator INOUYE. Do you have any idea how much is left in that account?

Mr. CALHOON. The best I can ascertain, Senator, is approximately $39 million.

Senator INOUYE. If that amount runs out and whatever other funds are available, then this program will be carried out without the necessity of using American bottoms; is that correct?

Mr. CALHOON. Yes, sir.

First, Senator, we say if the available funds are in the CCC fund, they should be used. If they are not adequate, then the excess funds in MarAd should be used, and if they are not adequate, then the cargoes could move in foreign-flag vessels.

Senator INOUYE. Mr. Chairman, I think this is an intriguing proposal. I think the committee should study this.

Mr. Calhoon, this morning—I am certain you were sitting in the audience—much testimony was related to the proposed GAO report on the cargo preference law and its implementation.

From your standpoint, are you satisfied that the Government is doing everything it can to guarantee efficient and economic operation of the Cargo Preference Program?

Mr. CALHOON. No, sir, Senator, I am not satisfied that the Government is doing everything possible. As a matter of fact, since the inception in 1956, I think the Government has done as little as possible.

Mr. Chairman, we have seen, we in the maritime industry have seen an unmitigated waste of Federal money in the carriage of the AID cargo. We have seen ships backlogged in harbors exceeding 120 days where demurrage on a vessel alone can run from $12,000 to $50,000 a day.

We have seen additional ships dispatched to that harbor that would have about 20 days steaming time, knowing full well there was a backlog of 120 days in the harbor instead of holding the grain here until the harbor could be cleared. We have seen the grain unloaded on the heads of people rather than on mechanical equipment.

You take a large modern ship and start taking the cargo off in baskets on the heads of poor people, then it takes a long time to unload a ship.

We have seen grain loaded in areas of this country where it would take 20 days to load a ship rather than in other areas where the ship could be loaded in 3 or 4 days. We have seen a society of what is commonly called beltway bandits built up that live under the name of brokers that are making a very fat profit out of chartering for foreign agencies, foreign embassies.

To the best of my knowledge, this is the only cargo that the U.S. Government ships where they see that the best way to handle it is through a brokerage firm, instead of directly with the steamship company.

Middlemen have been put in and, as you will see in subsequent testimony, Mr. Chairman, right now we are shipping grain to Israel for somewhere around $34 a ton. To another nation that is about 2 days steaming, closer than Israel, the going rate is about $52 a ton.

Mr. Chairman, I think you must ask serious questions of why this can exist so long. It is what we in the maritime industry call the sleaze factor in the Government AID cargo. The sleaze factor has been there from the inception. The prices are increased by strange and unusual terms in the charter negotiated through a broker with a foreign embassy.

The sleaze factor shows up in having to pay excessive, high unloading facilities. It shows up in the country I am talking about, just referred to, in lighterage fees.

In some nations when you pay for the lighterage fee you pay for the whole cargo rather than the amount that is being lighted. It is a program that is marked, since its inception, like Cox's army.

We have had these arguments with the administration over many, many years. We have had witnesses that were prepared to go forward with testimony in Federal court that they had to leave a brand new red Cadillac convertible in front of one broker's house every Christmas Eve.

We have had situations where we have known that people had to get on a plane with $50,000 cash in American money to go to a foreign country to pay to get his ship unloaded. These things have gone on for many, many years.

I don't believe this Secretary of Agriculture or any of his predecessors had any part of this, but it was there. It was a haphazard way to program a setup and administer it with nobody with the absolute obligation and authority to watch the program and watch the shop.

That is the reason we are testifying for a central broker agency operated by one department in the Federal Government that can watch the marine transportation and get the most for the buck.

Senator INOUYE. Mr. Calhoon, does your testimony apply to today's operation or was it back in the fifties?

Mr. CALHOON. The red Cadillac was back in the early sixties. The lighterage fee is current. I think the sleaze factor operation got a little more sophisticated, and instead of demanding hard cold cash, they set it up in operations in a recipient nation that you had to pay, which was a legitimate business expense for the American steamship company in which they skimmmed out of it.

So, they got a little more sophisticated after we had the explosion of a few years ago of the overseas payoffs. Accordingly, the

Congress did take some action. But it has not changed. The enormity of it, if anything, has grown, not shrunk.

I feel with a clear conscience that I can say for any AID cargo that has been delivered east of Gibralter, with the exclusion of Israel, there is a big factor of cost that should not be there.

Senator Inouye. This morning, I asked the question about the assumption that MarAd makes in determining a fair and reasonable rate, i.e., that the ship goes with cargo, but returns empty. I told Admiral Shear that I have been told on some occasions ships have returned with cargo, on other occasions these ships have been scrapped. I asked if this was common practice or in just one or two cases.

Are you aware of this type of operation?

Mr. CALHOON. Yes, I am, Mr. Chairman. It is a relatively new phenomenon. It has come about because of the window that was opened in 1981–1982 that allowed the American steamship companies to build for one year modern, efficient vessels foreign.

With the old bulkers that we had, return cargo was not possible. They were too small; they were too expensive to pick up any foreign cargo coming into the United States. With the modern vessels it is possible, and they can make some money bringing into the U.S. bulk cargo.

There should be an adjustment in the fair and reasonable rate for these vessels on two-way cargo.

Senator INOUYE. Is it your opinion that at this moment there is a lot of sleaze activity going on?

Mr. CALHOON. Yes, sir.

Senator INOUYE. Mr. Chairman, if this is the case, I think we should look into this.

Senator STEVENS. I think you are right.

Senator INOUYE. Everything east of Gibralter?

Mr. CALHOON. With the exclusion of the State of Israel.

Senator INOUYE. That covers a lot of countries.

Mr. CALHOON. It used to be east of Suez, but the tide has run this way.

Senator STEVENS. We will set a day and see if we can get some people to talk to us about that. I don't know what else to do. I might ask someone to do a little investigation before the hearing.

Mr. CALHOON. Mr. Chairman, I would like to commend you and Senator Inouye, when I made my presentation to you on the budget resolution, for the action you took right from the start on the study on the Jones Act in which we proposed again to give you the most economical way of moving cargo within the continental United States and allied possessions.

At this hearing we are offering the same thing for the Government cargo and we will be glad to work with you.

Senator STEVENS. Thank you very much. We look forward to seeing that draft.

[The statement follows:]

STATEMENT OF JESSE M. CALHOON, PRESIDENT, NATIONAL MARINE ENGINEERS' BENEFICIAL ASSOCIATION

Mr. Chairman, I am pleased to testify today as President of the National Marine Engineers' Beneficial Association which represents more than ten thousand American merchant marine officers. We strongly oppose the anti-cargo preference legislation that is before this Committee.

I am also pleased to testify as a farmer. Our union has a large farm in Maryland that grows corn and soybeans, and I grew up on a farm in North Carolina. That small patch of land in North Carolina is still as much a part of me as every ocean on which I've sailed. Indeed, I'm proud to say that I've probably spent more time on a farm than most of those before this Committee today who are supposed to be representing the farmers on this issue.

I make this point about my farm background, because I believe that while these bills would severely penalize the United States merchant fleet, they also offer little -- indeed no -- meaningful benefit to the American farmer.

Mr. Chairman, let me be very blunt. I think that American farmers are being misled. They are being misled by those who are using the Blended Credit cargo preference issue as a smokescreen to obscure the fact that nothing effective is being accomplished or even seriously contemplated to help our farmers in a time of genuine crisis.

I think the American farmer deserves better.

In today's severe and growing budgetary crisis, no one argues that any money saved on transportation costs would be spent for more farm exports. No one says that the money saved will go to stop the wave of farm foreclosures. We all know that it would be swallowed up by the deficit and disappear into the books of OMB. Yet there are many who tell the farmers otherwise, and some would use this excuse to eliminate all cargo preference when cargo preference has nothing to do with the crisis now hitting America's farms -- and they know it.

The farmers are told that applying cargo preference to Blended Credit exports is an "expansion" of cargo preference, when it clearly is not and this has been reinforced in court. The law -- 46 U.S.C. 1241 (b) -- states that exports for which the U.S. Government provides funds or credits or guarantees are covered by cargo preference. If Blended Credit is not a "credit" or a "guarantee", then someone has turned the English language upside down and inside out.

The farmers are told that the maritime industry is blocking the Blended Credit program. The truth is that the program could go forward tomorrow if the Secretary of Agriculture would give the go-ahead. Today's impasse is not necessary. The Secretary suspended the program in what is best described as a fit of anger when he lost his case in court. And now the loss is being appealed, an action that can only further delay this program. The American farmer should ask the Secretary: "What are we -- the American farmer -- getting out of this? You're getting an issue too useful to resolve; we're getting stuck with more than $500 million in commodities we cannot send abroad."

Mr. Chairman, Secretary Block has never stated that his Department does not have the money to fund the U.S.-flag differential for these exports as required by law. Furthermore, estimates of the costs of full cargo preference compliance for the program this year run from a low of $10-$15 million to a high of $50-$60 million, and I personally believe that the U.S.-flag differential costs would be less than $20 million. The American farmer ought to ask if Secretary Block is going to hold up more than half a billion dollars of exports in order to avoid paying a relatively small amount in transportation costs? They also should question why he is suddenly so solicitous of transportation costs -- to the point of killing, I repeat killing, a half of billion dollars of exports -- when he was able to pay nearly $200 million in grain to a few giant trading companies, without batting an eyelash, for their help in administering the P.I.K. program.

Mr. Chairman, throughout the history of this dispute over Blended Credit, the maritime industry has sought to find a constructive solution that would serve the interests of both parties. We have been rejected at every turn. The American farmer ought to ask: "Does Secretary Block really want to move our exports, or would he really rather have a convenient issue?"

Mr. Chairman, I've been tough on the Secretary. I've been tough and blunt, because I think that the American farmers deserve better. They need help, and if we think the situation out there is bad this year, then let me quote the President's most famous line: "You ain't seen nothing yet." As a nation we have not begun to face the full implications of our national debt and the crisis just around the corner. The farmers are starting to face it; they are already hurting. But for most of America, it's still a bit like the summer of 1914.

Faced with this coming crisis, I do not think that leadership consists of using one industry or one group in a society as the scapegoat for another's problems. That's not leadership -- whether the issue is social security, or veterans' benefits, or farm exports.

Leadership seeks areas of mutual benefit -- and mutual sacrifice, if sacrifice is required. Leadership brings different interests together. It does not consciously drive them apart.

I believe that our two industries can work together.

We both want the Blended Credit exports to go forward immediately. And we both want U.S-flag transportation costs to be as low as possible. If we can achieve these two objectives, then we can avoid today's impasse, and we can avoid a prolonged war over cargo preference that will be with us in growing intensity as the deficit crisis hits every sector of America in the coming years. I think that both our industries have a lot more to worry about than each other.

With this in mind, I would propose the following to address both short- and longer-term issues.

The centerpiece of what I propose is to lower, substantially, U.S.-flag rates for the carriage of agricultural preference cargoes. This would be combined with immediate resolution of the current impasse on the Blended Credit program so that these cargoes can move now.

Lower rates would strengthen our merchant fleet, making it more competitive; they would lower the cost of cargo preference programs, benefitting the U.S. Treasury; and they would provide the farmer a secure, low-cost, U.S.-flag alternative to foreign and Soviet-bloc shipping which has grown almost 70 percent in the last decade.

Such a program is realistic. With modern, efficient vessels built abroad, the U.S.-flag fleet has proven that it can be competitive -- this at a time when there is a severe and protracted worldwide shipping slump with rates depressed to unprecedented levels and millions of tons of idle vessels. For example, on modern U.S.-flag ships, grain transportation costs to Egypt have been reduced from between $80 and $137 a ton to $52 a ton, competitive with the rates of the low cost foreign carriers. Crew sizes have been cut from 35-42 down to 21 -- as low as anywhere in the world, and union concessions on wages, vacations, and benefits have further lowered operating costs. The use of modern, slow-speed diesel engines, only obtainable for new U.S.-flag ships built abroad, also means far lower operating costs -- as fuel is now the largest single component of such costs.

Such a program can begin to work at once -- to help our farms and our merchant marine -- not merely in the distant future. It would resolve the Blended Credit issue in order to provide immediate relief to U.S. farmers.

Mr. Chairman, let me begin with the immediate problem -- Blended Credit exports.

As you might imagine, I believe that Blended Credit exports belong under cargo preference. I also believe that the Secretary of Agriculture could, at a moment's notice, get these exports moving again by dropping his objections and funding the very small U.S.-flag differential out of departmental funds -- as by law should already be the case.

We have clear reason to believe that the Commodity Credit Corporation has the funds available to pay the differential for the U.S.-flag share of these exports. The money is there, and I would urge this Committee to seek and receive a response from the Secretary of Agriculture on this point. During the entire debate over the Blended Credit issue -- for over two years -- the Secretary has not been able to prove that funds were not available.

This is the best solution -- get the Secretary of Agriculture to do what the law clearly requires -- not destroy more than half a billion dollars worth of badly needed exports to stretch his point in a case where the Court has already ruled against him.

However, because it is important to move these cargoes soon, before the recipient nations turn elsewhere, and because Secretary Block refuses to consider any solution except his own, I also propose a solution which will permit Blended Credit cargoes to move immediately at no cost to the Department of Agriculture, if no other course is possible. This solution also would allow available U.S.-flag vessels to participate in the program where such vessels are modern and efficient and their transportation costs are fair and reasonable. Furthermore, such a solution can be implemented within existing appropriations. To accomplish this, legislation should be introduced to authorize the Maritime Administration to transfer to the Department of Agriculture on a one-time basis only unobligated operating-differential subsidy or other available funds to pay the ocean freight differential between U.S. and foreign operators for the remainder of the current Blended Credit program.

In proposing this, I fully recognize that funding may be inadequate to assure carriage of the full 50 percent of Blended Credit cargoes reserved by law for U.S.-flag vessels. And under this proposal Blended Credit cargoes may move on foreign-flag vessels if funding for U.S.-flag carriage is not sufficient.

But Mr. Chairman, no one is served by the current stalemate and escalating threat and counter-threat. This solution would help both industries -- Blended Credit exports would move for our farmers, and the U.S. merchant marine would carry some of the cargoes. The outcome is in the best interest of both sides. And I appeal to everyone concerned to consider it carefully.

However, Mr. Chairman, I believe that we must also go beyond the immediate issue and focus on some longer-term initiatives that can reconcile, not divide, farmers and the merchant marine.

The key, I believe, is to make the U.S.-flag fleet as modern and efficient as possible so that we can provide U.S. freight rates which are competitive on the world market.

I would begin by recommending that U.S.-flag participation in the agricultural cargo preference trades (including but not limited to Title I and Title II of P.L. 480) be limited to modern, efficient vessels whose rates are fair and reasonable and most closely approach current world shipping rates. In no case should the age of these vessels be beyond the useful economic life of such vessels as established by the Maritime Administration. These words may sound like generalities. In practice, they would make an enormous difference. The newest U.S.-flag vessels have been able to lower rates by 50 percent or more. In fact, there are already modern U.S.-flag vessels in operation that carry bulk agricultural cargoes at world competitive rates of $34 a ton, far below previous rates that were as high as $137 a ton.

In the same legislation proposed to resolve the present Blended Credit issue, the Congress should initiate a comprehensive reform of the preference trades in agricultural commodities and a prompt revitalization of the U.S.-flag dry bulk fleet. The initial elements of this program would be some re-engining of existing U.S.-flag tonnage -- in U.S. shipyards with no restriction on source of components -- to achieve fuel efficiency and reduced manning; and the establishment of permanent authority to enable owners to build abroad efficient, technologically-advanced, diesel-powered, dry bulk vessels at competitive world prices with no government assistance.

Mr. Chairman, you have heard me say this many times before, but it is worth repeating. Build-foreign is absolutely essential if we are to get U.S.-flag costs down. U.S.-built dry bulk vessels are more than three times as expensive as their foreign equivalents and this -- coupled with the higher cost of money here at home -- places an insurmountable burden on anyone who would build at home. Diesel power plants, which can be obtained most cheaply abroad, also mean smaller crews to operate them and that helps make us more competitive.

I would draw attention to my use of the words "dry bulk." As you know, I am for build foreign for any type vessel. But for the purposes of achieving a prompt solution I would limit action in this case to dry bulk vessels only.

I believe, however, that there is more to bringing rates down than merely making the U.S. merchant fleet more efficient. Some of our vessels are already as efficient as any established competitor. We also need to reform present preference trade practices in agricultural commodities. This reform should be accomplished in a multi-faceted action program designed to redirect present practices to lower transportation costs and to achieve efficiency and economy while preserving the essential cargo reservation for U.S.-flag ships.

In the Department of Transportation, I would recommend that a new joint Federal chartering entity be established from existing appropriations, personnel, and administrative resources within USDA, AID, and DoT. This new entity would be charged with direct responsibility for vessel selection and negotiation of freight rates whenever a Federal agency is either financing or paying for ocean freight. This reform is important, because, currently, freight rates are often unnecessarily increased during the tendering process by middlemen, foreign agents, and brokers -- an increase that in today's system is beyond the control of ship operators and the U.S. Government.

This increase is not the result of a cash-filled envelope handed to some foreign official. It is built in with great sophistication by the recipient country through methods such as charter party terms and inflated off-loading fees. I think it is time to clean this up, and a joint Federal chartering entity could do the job.

I would also recommend that this new joint chartering entity in the Department of Transportation be granted full authority to negotiate long-term charters of at least 3-5 years. Indeed, all chartering activities of this new office would be done in such a way as to maximize competition and assure the lowest possible freight rates. Guidelines to assure such practices could include open competitive bidding, maximized parcel sizes, equitable cargo allocations by coastal range, and non-spot market chartering whenever possible, such as long-term charters, contracts of affreightment, and consecutive voyage charters. Spot chartering is by far the most expensive and least efficient method of procuring U.S.-flag vessel services, and this seemingly small reform would provide a major impetus toward achieving lower freight rates.

I should note that this reform would lower the transportation costs of all U.S. Government-generated agricultural exports, since removal of the foreign country influence on U.S.-flag rates would surely drive down foreign-flag rates as well. And one should never forget in any discussion of cargo preference that foreign flags carry at least 50 percent, and often more, of U.S. Government-generated farm exports.

As is true with commercial agricultural exports, which constitute most agricultural exports today, private sector participation would continue whenever the U.S. Government is not responsible for the ocean freight. In addition, private brokers and agents would be allowed to provide normal for-fee commercial services, such as documentation and insurance, in all cases. Similarly, management information services necessary for the vessel selection and freight rate negotiation functions could be provided by contractors.

I wish to emphasize that funding for payment of ocean freight rate differentials would remain unchanged from present practices. This new entity would serve solely as a booking agent to responsible shipper agencies. As an agent to Federal agencies, the activities of this new office would be subject to audit by the GAO, and it should be charged to prepare an annual report to the Congress on its activities.

Mr. Chairman, that, in outline, is what I would propose to this committee and those in both our farming and maritime communities. I believe that it offers the framework for a constructive solution that with a little bit of give on both sides can meet the true needs of each side.

It is a solution designed to end a problem, not perpetuate it, and I offer it for your consideration with that in mind. I stand ready to work with you, with my colleagues in the maritime industry, and with my friends in American agriculture to design an outcome that puts us all back where we belong -- on the same side working together. The future before us all will accept no other alternative if we are to survive.

Thank you, Mr. Chairman.

Senator STEVENS. The next witness is Mr. Mills.

STATEMENT OF THOMAS L. MILLS, ATTORNEY

Mr. MILLS. Thank you, Mr. Chairman.

Mr. Chairman, you have my prepared statement for the record. For the sake of brevity, I will summarize.

Mr. Chairman, I know that you will agree that the last thing the maritime industry needs at this point is a fight with another industry, much less another department of the administration. In the past, we, the maritime industry, have brought a number of troubles upon ourselves. Not so here.

I don't know why exactly the various agricultural lobbying interests and the Department of Agriculture felt compelled to make a cause celebre out of a matter which is of minuscule dollar impact to them, but of major life-threatening proportions to our industry. It is puzzling and disturbing.

It is indisputable that the subsidies paid to the farm interests are several hundred times greater than the amount which would be involved in paying the differentials to the maritime industry under the Blended Credit Program.

Based upon Secretary Block's statement that the grain is waiting on the dock, I believe the cost of not reinstating the blended credit program will approximate the cost of paying the differentials to U.S.-flag carriers on blended credit cargo as mandated by U.S. law.

That the Department of Agriculture would refuse to reinstate a program resulting in the loss of over $500 million in agricultural exports is astounding.

What is even more incredible, however, is that the maritime costs associated with the program in no way affect farmers' interests. They are not costs passed onto the farmer, as you pointed out earlier this morning. They are not dollars otherwise earmarked for farm interests. They are merely some dollars which, however minute in the relative scheme of things, some within the agricultural community would like to convert them from our industry to theirs.

I said earlier, Mr. Chairman, that this was not a problem which the maritime industry has brought down on its own head. Let me explain.

During the period from 1982 to the present the overall ocean freight differential paid under the Cargo Preference Act for all ag-

ricultural commodities has declined by 40 percent. The ocean freight differential for transportation of bulk wheat which, according to the Department of Agriculture, is the largest commodity exported, has declined in the same period, 3 years, by 50 percent.

To be specific, in 1981, 882,000 tons of wheat moved on U.S.-flag vessels at an average differential of $58.59 a ton. In 1984, the tonnage doubled while the differential fell to only $29.27 a ton.

That dramatic decline in the ocean freight differential corresponds to a significant decline in the age of the U.S. bulk fleet and to the increase in the average size per ship.

Attached to my written statement is a chart showing the average age of the U.S.-flag bulk fleet. It shows a decline from 25 years of age in 1977 to about 11 years of age in 1985, continuing to fall to less than 8 years of age by next year.

At the same time we have seen a shift in the U.S. bulk fleet size, 35,000 deadweight tons in 1982 to 48,000 deadweight tons or an increase of about 40 percent in 1985.

A decline in the ocean freight differntial for U.S.-flag carriage of preference cargo will still continue as low capital cost, energy efficient diesel vessels, manned by smaller crews, are delivered for operation under the U.S. flag to U.S. shipping companies.

Some of the new ships are within $12 to $15 of the foreign-flag rate now and within 7 to 8 years will be within $2 to $3 of the foreign-flag rate without operating-differential subsidies.

I think it is clear, Mr. Chairman, the maritime industry has been working very assiduously to get its house in order and as that effort relates to cargo preference in general and blended credit in particular, the industry can look with considerable pride on what it has accomplished.

This morning Senator Inouye referred to the possible consequences of leaving to the foreign-flag vessels the carriage of our exports. I believe I can add some emphasis to that by pointing out that in fact U.S.-flag rates for bulk carriers carrying Public Law 480 cargoes were actually lower in 1983 and 1984 than the foreign-flag bulk ship rates in 1981.

In 1984 the average rate for U.S.-flag bulk carriers was $51.39, more than 20 percent less than the foreign flag-rate of $63.56 in 1981.

I think Senator Inouye's point this morning was particularly apt and I don't think any of us here doubt for a moment that if the U.S.-flag vessels required for their use were eliminated, you would see far greater transportation costs across the whole range of transportation. At that point it would be 100 percent and not just 50 percent.

U.S.-flag transportation costs are not the cause of the farmers' problems in the world of export markets. Farmers suffer from the same ills as does our industry: Highly subsidized competition, discriminatory practices, nontariff barriers, and an overvalued dollar.

I believe that the maritime industry is united in extending to the farming industry the olive branch. Rather than fighting one another, let us work together to combat the real evil all America faces vis-a-vis exporting with foreign competition.

Some things can be done to the mutual benefit of the farming industry and the maritime industry and the taxpayers of the

United States. I have suggested several reforms in my written statement which will lower still further the cost of transporting agricultural commodites in the export trade.

Bascially they are the joint transportation office, intermediate term and consecutive voyage charters, portside loading and unloading reforms, eliminate the need for foreign brokers and commissions, all of which were touched on more articulately by Mr. Calhoon. Consistent with what others on the panel have suggested. I will leave their explanations for the record.

That concludes my statement.

Senator INOUYE. Are you also aware of the sleaze factor Mr. Calhoon referred to?

Mr. MILLS. Yes, sir.

Senator INOUYE. You are satisfied it still exists?

Mr. MILLS. Absolutely.

Senator INOUYE. Do you have any idea how much is involved in the sleaze factor?

Mr. MILLS. No, sir, I don't. Mr. Calhoon gave some examples, some of which predated me. In the current atmosphere there are charter rates which can easily be compared because they are to the same range of ports, relatively similar voyages with the same commodity where the charter rates will be $7 or $8 higher for one country than other.

What is the cause of that, Mr. Chairman. I think it speaks for itself.

Senator INOUYE. Thank you.

Senator STEVENS. Thank you very much.

[The statement follows:]

STATEMENT OF THOMAS L. MILLS

I am Thomas L. Mills of Kominers, Fort, Schlefer & Boyer. This statement is submitted on behalf of the Coalition of members of the maritime industry and maritime labor unions which oppose enactment of S.664, and similar bills, which would repeal the applicability of the Cargo Preference Act of 1954 to the Commodity Credit Corporation's "Blended Credit Program." On February 21, 1985, the United States District Court ruled that the Blended Credit Program was subject to the requirements of the Cargo Preference Act of 1954. On February 26, the Department of Agriculture announced that it was suspending approval of all shipments under the program. Since that date, agricultural interests have initiated a massive campaign to convince the Congress that the applicability of the cargo preference requirement to the "Blended Credit Program" and other exports of agricultural commodities has a devastating impact on farm exports and severely damages the American farmer. Nothing could be further from the truth.

Firstly, it is an incontrovertible fact that the subsidies paid to maintain our merchant marine under the cargo preference program are miniscule compared to the enormous subsidies which our farmers receive from the government. Thus, according to the Agency for International Development, the additional costs of shipping on U.S.-flag vessels under P.L. 480 were only $78 million in 1983, $98 million in 1984 and are estimated to run only $118 million in 1985. These figures should be compared to the huge CCC export credit guarantees which are made by our government so that our farmers can sell their products at competitive prices in foreign markets. In the 1986 Budget, it is estimated that this export credit assistance will total $5 billion, an amount which represents a 145% increase over the 1981 level of total CCC export credit assistance.

The Blended Credit Program utilizes two of the credit programs sponsored by the Commodity Credit Corporation; the CCC Export Credit Guarantee Program ("GSM-102") and the CCC Export Sales Program ("GSM-5"). Under the GSM-5 program, the CCC enters into a financing agreement with a United States exporter of agricultural commodities by which the CCC purchases, for cash, after delivery, the export-

er's account receivable from the export sale. Under this program, the CCC will allow the foreign importer up to three years to repay the account receivable at a subsidized rate of interest. Thus, under this program, the farmer receives his cash immediately, while the foreign purchaser has three years to repay the CCC. The Government acts as banker and supplies credit to the foreigner. The risk of loss attributed to defaults is borne solely by the CCC. Under the GSM-102 program, a United States exporter obtains from the foreign importer a guarantee of payment of the selling price of the agricultural commodities in the form of a foreign bank letter of credit. The CCC then guarantees the United States exporter that the letter of credit will be paid. At that point, the farmer can assign the letter of credit to his bank at a discount which is based on a highly favorable rate of interest due to the Government guarantee. The Blended Credit Program utilizes 80% GSM-102 guarantees and 20% GSM-5 credits.

It has been asserted that the only subsidy in the program is the approximately 2% reduction in interest due to the 20% direct credit provided the farmer under the GSM-5 program. In reality, however, the Government's guarantee of the other 80% of the foreign financing eliminates any risk of the transaction to the bank which discounts the farmer's guaranteed letter of credit at an extremely favorable rate. Moreover, but for the Government's guarantee, the cost of credit to the farmer would be so high that his produce could not compete in foreign markets. Finally, it should be noted that the Blended Credit Program only represents a small part of the direct export credits and credits guarantees provided our nation's farmers by the Government.

The magnitude of this subsidy can be comprehended if it is recognized that only a small portion of our export sales would occur without federally subsidized credit. We recognize that, absent this large amount of credit assistance our farmers could not sell their products abroad in many markets. Today, we merely ask our farmers to recognize that without the much smaller amounts paid under the Cargo Preference Act, our nation's merchant marine would also not be able to compete against its cheaper foreign-flag competition. If the huge federal expenditure for export credit subsidies is justified by our need to maintain that small portion of our farm industry which exports its products abroad, how much more justifiable are the relatively minute subsidies which are paid for cargo preference to preserve our small foreign trade bulk fleet whose existence is so vital for our national security.

Moreover, the credit subsidies paid our farmers to export their grain constitute only a small portion of the overall subsidies provided by the government in its farm program. Existing federal programs artifically prop up agricultural prices through price support loans and guaranteed "target prices." Farmers are offered federally subsidized insurance against crop losses from national hazards and low-cost credit for continuing and expanding farm operations. As a result of these production incentives, an excess supply of crops is produced and the surplus commodities are bought and stored by the Government.

At the same time, however, other programs pay subsidies for acreage reduction to help reduce excess production. These conflicting subsidies—those which encourage production and those which reduce excess production—raise U.S. prices well above world market levels. Paradoxically, it is to offset these domestic subsidies that the CCC export credit subsidy is offered so that foreign buyers pay less for U.S. farm produce than U.S. consumers. This system is extremely costly to American taxpayers, who in effect pay two subsidies to our farmers in their roles as taxpayers and consumers. Total outlays for "farm income stabilization" in fiscal 1985 will exceed 18 billion dollars according to the President's budget estimate. Even if Congress were to adopt all of the changes in these programs recommended by the President in his Budget for 1986, the cost estimate in the Budget for 1986 is 11 billion dollars. It is apparent, Mr. Chairman, that our merchant marine is being subsidized at a rate which is a small fraction of 1% of the direct subsidies which are being received by our farmers. The hypocrisy of the respresentatives of the most highly subsidized industry in America attacking the small amount of subsidy paid to our merchant marine is truly incredible.

Secondly, in contrast to the ever increasing amounts of subsidy paid to our farmers for exporting agricultural commodities, the cost of transporting those same commodities on U.S.-flag vessels has dramatically decreased over the last few years. In contrast to the 145% increase between 1981 and 1986 in export credit assistance to our farmers the overall ocean freight differential paid under the Cargo Preference Act of 1954 (all agricultural commodities, all countries) has shown a decline of 40% between 1981 and 1984. Moreover, the decline in the ocean freight differential for the transportation of bulk wheat, the largest commodity exported, has been even more dramatic. That differential has declined by 50% between 1981 and 1984. Thus

in 1981, 881,927 metric tons of wheat moved on U.S.-flag vessels at an average ocean freight differential of $58.49 per ton; while in 1984 1,651,713 metric tons of wheat moved on U.S. flag vessels at an average ocean differential of only $29.27 per ton. According to the Department of Agriculture, wheat represented more than 70% of the total agricultural commodities shipped under P.L. 480. In the case of Egypt, the largest purchaser of bulk wheat (between 300,000 and 700,000 metric tons per year moved on U.S.-flag vessels), the decline in the ocean freight differential between 1981 and 1984 has been an astounding 65%. In 1981, the ocean freight differential for bulk wheat carried to Egypt was $76.01 per metric ton; while by 1984, the differential had declined to $26.77 per metric ton.[1] It is no coincidence that the decline in ocean freight differential corresponds to both the significant decline in the age of the U.S.-flag bulk fleet (from over 20 years in 1981, to less than 10 years now) and the increase in average size per ship. In fact, U.S.-flag rates for bulk carriers carrying P.L. 480 cargoes are actually lower in 1983 and 1984 then foreign-flag bulk ship rates in 1981. In 1984, the average rate for U.S.-flag bulk carrier was $51.39, more than 20% less than the foreign-flag rate of $63.56 in 1981.

Thirdly, the decline in ocean freight differentials for U.S.-flag carriage of preference cargoes will still continue as new low capital cost, energy efficient diesel vessels (which are manned by smaller crews) are delivered for operation under U.S.-flag to U.S. shipping companies. These modern ships can carry agricultural commodities at rates which approach those of many foreign-flag carriers. For example, the Berger Group companies operate numerous bulk vessels under U.S.-flag. In 1984, the Berger Group took delivery of two fuel efficient modern dry bulk carriers which are employed in the carriage of agricultural commodities. One of these vessels is under an intermediate term 4½ year contract of affreightment for the carriage of agricultural commodities to Israel. Those commodities are being carried at a rate of $36 per metric ton. Within eight years, the capital cost on these ships will be fully recovered. At that point the rate for the carriage of grain to Israel could be reduced from $36.00 to $24.00, or within $2.00–$3.00 of the current foreign rate. The Berger Group's second bulk carrier has been chartered for the carriage of grain covered by P.L. 480 on single voyages at very low rates. The Berger Group has since exercised options to build three more of these modern bulk carriers which will substantially enhance our merchant marine while continuing to pare cost differentials between U.S.-flag and foreign-flag vessels. These contracts, however, will nonetheless have to be cancelled, if legislation limiting the applicability of cargo preference is enacted.

Fourthly, despite the protestations of the farm interests' lobby, the serious problems facing our farmers in export markets are not in any way the result of transportation costs. Our farmers cannot compete in foreign markets against highly subsidized foreign interests, discriminatory practices and non-tariff barriers. For example, through the use of massive export subsidies the European Community has taken a share of the world agricultural market well out of proportion to its overall share of production. Japan has adopted numerous non-tariff barriers which limit our agricultural exports to that country. Moreover, the overvalued dollar has made it difficult for our farmers to compete in the third-world markets. Our small merchant marine suffers from precisely the same factors: subsidization of foreign fleets by their governments; restrictive trade barriers and an overvalued dollar. It should also be noted the Department of Agriculture's blatant unilateral suspension of the Blended Credit Program in response to the Court's decision that the Cargo Preference Act should be applied to that Program is alone responsible for the immediate loss of agricultural sales. Suspension of the program was not mandated or required by the Court's decision. If our farmers desire to export their products they should insist that the program be promptly reinstated during the pendency of the Government's appeal of the District Court's decision.

The Department of Agriculture's cynical unwillingness to pay a few million dollars to our merchant marine—at no cost to our farmer—has jeopardized over $500 million in farm exports totaling 3.6 million metric tons. Many of the recipient countries have already announced that they will purchase the grainelsewhere if the program is not reinstated shortly. If Congress desires to help our farmers, it should urge the President to direct the Department of Agriculture immediately to lift its suspension of sales under the "Blended Credit Program."

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[1] We are attaching as an appendix, copies of the tables for 1981–1984 which we received from the Department of Agriculture and which document the decline in average freight differentials during that period. We have also attached graphs which depict the decline in freight rate differentials, decline in the age of our bulk fleet and the projected increase in the average size of the vessels.

Finally, the maritime and agricultural communities should unite to work together to lower U.S.-flag transportation costs instead of engaging in a destructive confrontation between two industries whose health is vital to this nation's security. I would like to suggest several possibilities. First, we should adopt the Maritime Administration's proposal to establish a joint transportation office comprised of the professionals from Marad, the Department of Agriculture, and Agency for International Development. That office should be empowered to arrange the ocean transportation for the sponsoring agency. Such an office would have the expertise and negotiating authority to effect long needed and cost-saving reforms. For example, the cargo preference program may be capable of being modified to eliminate the need for foreign brokers who pocket between 1 and 1½ percent of the freight revenues. To my knowledge, this is the only government procurement program in which brokers participate. Second, the joint transportation office should explore the feasibility of using consecutive voyage or intermediate term time charters or contracts of affreightment for the carriage of agricultural commodities instead of chartering tonnage on a "spot" or voyage basis, which is the most expensive method of arranging ocean transportation. The Berger Group's experience with their intermediate term contracts with Israel demonstrates that such time charters have the potential to reduce rates substantially. There are many more reforms that a joint transportation office, by virtue of its economic and contractual leverage, would be able to effect. These reforms would be reflected immediately in lower cost to the government, the vessel operators, and the recipient nations.

Rates can also be reduced if port-side loading and unloading time can be reduced. At the present time, it takes 4–5 days to load a vessel in the Gulf, but approximately 20 days to load a vessel on the West Coast. This time is reflected in higher charges to the U.S. government. Likewise, on the discharge end, unloading delays are substantial. We believe that reductions can be accomplished, for example, through the use of old ships in ports as floating warehouses.

Mr. Chairman, for more than thirty years, cargo preference legislation has been an important instrument for the enhancement of our merchant marine and hence, our nation's security. Seven Presidents of every political persuasion have vigorously supported that policy. The current Administration has repeatedly pledged that there will be no erosion in the applicability of cargo preference requirements. The maritime industry is not seeking an expansion of the scope of existing preference requirements. Judge Green's decision, of course, did not legislate any such expansion. It merely found that the Blended Credit Program is a type of government assistance which is subject to the existing statutory provision. The small U.S.-flag fleet cannot afford to lose any more ships which will surely result from the adoption of the proposed legislation. We urge the members of this committee to reject these efforts to destroy our merchant marine without providing any meaningful benefits for our farmers.

CALENDAR YEAR 1981 CARGO PREFERENCE TITLE I, PUBLIC LAW 480 AS OF OCTOBER 31, 1981

	Average OFD (dollars)	United States (MT)	Foreign MT	United States (percent)
Bangladesh:				
Wheat	62.41	107,806	100,000	51.9
Soybean oil	125.29	14,650	10,350	58.6
Dominican Republic:				
Wheat	12.50	8,749	28,757	23.3
Rice	33.20	21,008	.....	100.0
Egypt:				
Wheat flour (bagged)	55.03	161,288	222,458	42.0
Wheat (bulk)	76.01	318,981	670,457	32.3
El Salvador:				
Wheat (bulk)	35.28	56,000	32,219	63.5
CS/SB oil	.....	.....	7,872	0.0
Ghana:				
Wheat (bulk)	70.93	11,000	17,086	39.2
Rice (bagged)	39.16	8,332	6,000	58.1
Guinea:				
Rice	36.00	11,673	.....	100.0
Flour	36.00	4,042	.....	100.0
C/S oil	19.00	1,446	.....	100.0

CALENDAR YEAR 1981 CARGO PREFERENCE TITLE I, PUBLIC LAW 480 AS OF OCTOBER 31, 1981—Continued

	Average OFD (dollars)	United States (MT)	Foreign MT	United States (percent)
Haiti:				
Rice	18.67	7,915		100.0
Wheat	13.53	12,000	17,365	40.1
Honduras: Wheat	50.90	2,850	17,497	14.0
Indonesia:				
Wheat (bulk)	37.70	25,433	23,750	51.7
Rice (bagged)	10.54	38,872	38,589	50.2
Jamaica:				
Blended foods	41.97	764	2,083	26.8
Corn (bulk)			15,000	0
Flour	43.83	11,772	3,500	77.1
Wheat	11.29	23,791		100.0
S/B oil	40.00	1,000	2,851	26.0
Rice	41.00	1,200	1,083	52.6
Kenya: Corn (bulk)	60.94	75,642	33,000	69.6
Korea: Wheat	44.82	82,700	82,700	50.0
Liberia: Rice	33.64	20,449	15,103	62.4
Madagascar: Rice	117.40	12,969		100.0
Malawi: Corn (bagged)			13,190	0.0
Mauritius:				
Rice	107.50	4,662		100.0
Flour	107.50	5,719		100.0
Morocco: Wheat	41.73	103,030	68,700	60.0
Pakistan: S/B oil	44.08	48,000	46,179	51.0
Peru: Rice	27.79	18,683	18,683	50.0
Poland: Corn (bulk)	62.81	130,000	233,326	35.8
Senegal: Rice (bagged)	49.75	12,966		100.0
Sierra Leone:				
Rice (bagged)	47.00	2,751	2,076	57.0
Wheat			1,152	0
Somalia:				
Flour	100.28	3,200	12,253	20.7
Corn (bagged)			16,899	0
Rice			9,345	0
CS/SB oil	105.30	4,382		100.0
Sri Lanka: Wheat	57.55	54,000	55,450	49.3
Sudan:				
Flour (bagged)	69.21	21,912	19,500	52.3
Wheat	114.00	14,000	92,330	13.2
Tanzania: Corn (bulk)	84.98	13,000	39,578	24.7
Tunisia: Wheat	62.25	5,000	55,835	0.8
Zaire:				
Wheat	91.34	27,000	19,500	58.1
Flour			7,120	0
Zambia: Wheat	91.89	28,587	28,587	50.0
Totals:				
Wheat	58.49	880,927	1,311,385	40.2
Wheat flour	57.66	207,933	264,831	44.0
Rice	37.50	161,480	90,879	64.0
Corn	63.48	218,642	350,993	38.4
CS/SB oil	64.43	69,478	67,252	50.8
Blended foods	41.97	764	2,083	26.8
Grand totals	57.14	1,539,224	2,087,423	42.5

CALENDAR YEAR 1982 CARGO PREFERENCE TITLE I/III, PUBLIC LAW 480 AS OF DECEMBER 31, 1982

	Average OFD (dollars)	United States (MT)	Foreign (MT)	United States (percent)
Bangladesh:				
Wheat (bulk)	55.93	153,756	155,304	49.7
Rice (bagged)	52.96	27,277	27,277	50.0
CS/SB oil (bulk)	69.88	19,500	15,000	56.5
Bolivia: Wheat (bulk)	38.40	32,470	32,466	50.0
Congo: Rice (bagged)	80.00	3,167	3,166	50.0
Costa Rica:				
Corn (bulk)	27.21	51,809	0	100.0
SB Oil (bulk)	0	0	2,116	0
Wheat (bulk)	25.55	4,444	55,000	7.5
Dominican Republic:				
Corn (bulk)	11.00	36,000	33,000	52.2
SB oil (bulk)	0	0	6,000	0
Egypt:				
Wheat flour (bagged)	64.32	234,758	227,679	50.3
Wheat (bulk)	58.77	709,600	692,351	50.6
El Salvador:				
Wheat (bulk)	32.12	54,540	32,015	63.0
CS/SB oil (bulk)	0	0	7,612	0
Corn (bulk)	0	0	18,001	0
Ghana: Rice (bagged)	64.00	7,888	9,181	46.2
Guinea: Rice (bagged)	82.80	7,750	7,733	50.1
Haiti:				
Wheat (bulk)	12.19	26,063	33,489	43.3
SB oil (bulk)	0	4,051	2,900	58.3
Honduras: Wheat (bulk)	17.30	24,285	22,760	51.6
Indonesia: Wheat (bulk)	49.02	47,822	47,750	50.0
Jamaica:				
Corn (bulk)	6.50	6,000	45,900	11.6
Rice (bagged)	28.87	9,000	5,433	62.4
Wheat (bulk)	12.76	20,947	0	100.0
SB oil (bulk)	0	0	1,033	0
Blended foods (bagged)	52.24	3,074	0	100.0
Wheat flour (bagged)	30.00	4,114	0	100.0
Kenya:				
Wheat (bulk)	63.78	44,491	24,500	64.5
Rice (bagged)	73.75	7,000	5,986	50.1
Liberia: Rice (bagged)	54.36	43,301	0	100.0
Madagascar: Rice (bagged)	72.00	8,641	8,641	50.0
Mauritius:				
Rice (bagged)	65.10	6,975	0	100.0
Flour (bagged)	65.10	5,769	0	100.0
Morocco: Wheat (bulk)	40.65	129,675	129,000	50.1
Pakistan: SB oil (bulk)	33.91	66,350	42,800	60.8
Peru: Rice (bagged)	30.82	9,500	42,103	18.4
Senegal: Rice (bagged)	55.27	11,875	12,034	49.7
Sierra Leone: Rice (bagged)	54.80	10,251	0	100.0
Somalia:				
Wheat (bagged)	0	0	4,957	0
Flour (bagged)	103.80	5,899	7,875	42.8
Rice (bagged)	103.80	14,550	7,591	65.7
CS/SB oil (drummed)	114.80	3,150	3,090	50.5
Sri Lanka: Wheat (bulk)	46.48	60,000	59,593	50.2
Sudan:				
Wheat (bulk)	40.50	71,573	52,266	57.8
Flour (bagged)	73.40	10,550	10,558	50.0
Tanzania:				
Corn (bulk)	0	0	13,800	0
Rice (bagged)	71.42	12,144	0	100.0
Tunisia: Wheat (bulk)	50.34	37,500	39,148	48.9
Zaire: Wheat (bulk)	0	0	58,570	0

CALENDAR YEAR 1982 CARGO PREFERENCE TITLE I/III, PUBLIC LAW 480 AS OF DECEMBER 31, 1982—Continued

	Average OFD (dollars)	United States (MT)	Foreign (MT)	United States (percent)
Zambia:				
Wheat (bagged)	71.95	9,479	10,300	47.9
Rice (bagged)	73.25	3,293	3,158	51.1
SB oil (bulk)	0	0	4,079	0
Totals:				
Wheat	51.26	1,426,647	1,478,513	49.1
Wheat flour	65.25	261,098	246,112	51.5
CS/SB oil	44.65	93,051	84,630	52.4
Rice	61.22	182,612	133,303	57.8
Corn	19.66	93,809	110,701	45.9
Blended foods	52.24	3,074		100.0
Grand totals	52.18	2,060,291	2,053,259	50.01

CALENDAR YEAR 1983 CARGO PREFERENCE TITLE I/III, PUBLIC LAW 480 AS OF DECEMBER 31, 1983

	Average OFD (dollars)	United States (MT)	Foreign (MT)	United States (percent)
Bangladesh:				
Rice (bagged)	36.91	17,694	17,693	50.0
Wheat (bulk)	54.50	45,750	43,000	51.5
CSO/SBO (bulk)	31.50	13,067	14,349	47.7
Bolivia:				
Wheat (bulk)	22.29	59,750	88,082	40.4
Rice (bagged)	38.63	14,807	13,750	51.9
Costa Rica:				
Corn (bulk)	13.01	8,000	41,494	16.2
Wheat (bulk)	18.16	40,000	28,000	58.8
Rice (bagged)	14.25	21,055	0	100.0
Edible beans (bagged)	0	0	3,448	0
Dominican Republic:				
Corn (bulk)	7.15	41,576	56,150	42.5
SB oil (bulk)	5.21	21,658	0	100.0
Egypt:				
Wheat flour (bagged)	57.24	155,698	149,118	51.1
Wheat (bulk)	39.23	348,500	340,475	50.6
El Salvador:				
Wheat (bulk)	19.50	42,300	71,047	37.3
CS/SB oil (bulk)	0	0	13,843	0
Corn (bulk)	17.58	59,863	22,346	72.8
Rice (bagged)	35.90	4,808	0	100.0
Guinea: Rice (bagged)	82.80	5,000	10,762	31.7
Haiti:				
Wheat (bulk)	15.06	20,000	18,268	52.3
SBO (bulk)	6.28	5,500	1,073	83.7
Honduras: Wheat (bulk)	7.89	30,088	33,629	47.2
Indonesia:				
Wheat (bulk)	54.41	41,500	41,278	50.1
Rice (bagged)	27.14	32,775	32,721	50.0
Jamaica:				
Wheat (bulk)	5.83	29,849	5,250	85.0
Wheat flour (bagged)	25.00	4,696	0	100.0
Corn (bulk)	0	0	39,159	0
CSO/SBO (bulk)	0	0	2,697	0
Rice (bagged)	25.00	16,161	0	100.0
Blended foods (bagged)	18.17	2,294	0	100.0

CALENDAR YEAR 1983 CARGO PREFERENCE TITLE I/III, PUBLIC LAW 480 AS OF DECEMBER 31, 1983—Continued

	Average OFD (dollars)	United States (MT)	Foreign (MT)	United States (percent)
Kenya:				
Wheat (bulk)	66.84	35,275	35,275	50.0
Rice (bagged)	66.50	6,266	5,393	53.7
Liberia: Rice (bagged)	65.60	23,000	22,606	50.4
Madagascar:				
Rice (bagged)	75.75	5,270	17,967	22.7
SBO (drummed)	0	0	1,618	0
Mauritius:				
Rice (bagged)	72.75	5,839	2,031	74.2
Flour (bagged)	0	0	3,807	0
Morocco: Wheat (bulk)	37.51	91,905	104,130	46.9
Pakistan: CSO/SBO (bulk)	22.77	49,000	42,080	53.8
Peru:				
Rice (bagged)	27.22	23,182	23,182	50.0
Wheat (bulk)	21.27	33,800	33,800	50.0
SBO (bulk)	0	0	7,124	0
Senegal:				
Rice (bagged)	0	0	11,059	0
Sorghum (bulk)	52.60	12,304	12,304	50
Sierra Leone:				
Wheat (bulk)	48.75	3,376	0	100.0
Rice (bagged)	54.86	10,017	0	100.0
Somalia:				
Wheat (bulk)	70.13	5,089	0	100.0
Wheat flour (bagged)	70.13	4,279	8,715	32.9
Rice (bagged)	70.13	11,341	6,920	62.1
CSO/SBO (drummed)	80.13	3,146	6,300	33.3
Sri Lanka: Wheat (bulk)	42.58	80,000	77,616	50.8
Sudan:				
Wheat (bulk)	37.32	151,091	94,316	61.6
Flour (bagged)	73.35	13,701	31,843	30.1
Tanzania: Rice (bagged)	72.75	7,664	7,663	50.0
Tunisia:				
Wheat (bulk)	30.15	31,408	24,675	56.0
SBO (bulk)	0	0	5,855	0.0
Zaire:				
Wheat (bulk)	76.80	28,000	23,069	54.8
Flour (bagged)	0	0	6,107	0
Zambia:				
Wheat (bulk)	58.40	8,000	8,652	48.0
Rice (bagged)	58.00	6,302	0	100.0
CSO/SBO (bulk)	0	0	5,878	0
TOTALS:				
Wheat	37.03	1,125,681	1,070,562	51.3
Wheat flour	57.94	178,374	199,590	47.2
CS/SB oil	20.24	92,371	100,817	47.8
Rice	42.92	211,181	171,747	55.1
Corn	13.28	109,439	159,149	40.7
Blended foods	18.17	2,294	0	100.0
Edible beans	0	0	3,448	0
Sorghum	52.60	12,304	12,304	50.0
Grand totals	37.63	1,731,644	1,717,617	50.2

Note: Average grand total OFD computed after following deductions of 5,067 MT SBO/Bangladesh—no OFD, 1,448 MT bagged rice/El Salvador—no OFD.

CALENDAR YEAR 1984 CARGO PREFERENCE TITLE I/III, PUBLIC LAW 480 AS OF DECEMBER 31, 1984

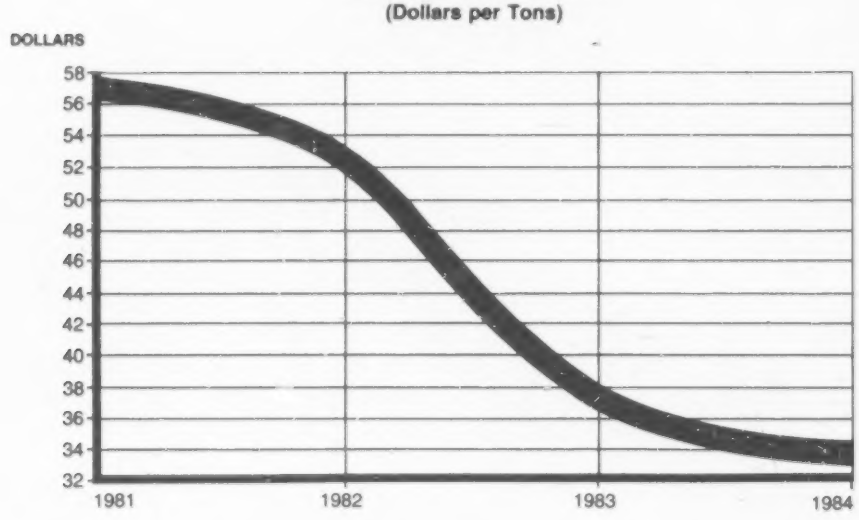
	Average OFD (dollars)	United States (MT)	Foreign (MT)	United States (percent)
Bangladesh:				
Rice (bagged)	31.36	33,964	33,095	50.6
Wheat (bulk)	31.62	243,991	228,895	51.6
CS/SB oil (bulk)	0	0	14,353	0
Bolivia: Wheat (bulk)	21.25	34,678	29,800	53.8
Costa Rica:				
Corn (bulk)	17.41	22,606	11,685	65.9
Wheat (bulk)	17.79	47,706	58,260	45.0
Dominican Republic:				
Corn (bulk)	10.23	68,603	86,700	44.2
Wheat (bulk)	11.19	19,614	0	100.0
SBO (bulk)	0	0	3,240	0
Egypt:				
Wheat flour (bagged)	47.26	253,596	252,228	50.1
Wheat (bulk)	26.77	516,500	442,270	53.9
El Salvador:				
Wheat (bulk)	18.69	97,500	65,837	59.7
CS/SB oil (bulk)	0	0	17,681	0
Corn (bulk)	13.90	45,000	40,620	52.6
Rice (bagged)	24.00	4,422	1,823	70.8
Guatemala: SBO (drummed)	29.32	4,059	4,000	50.4
Guinea: Rice (bagged)	79.35	8,942	8,942	50.0
Haiti:				
Wheat (bulk)	14.91	24,000	23,889	50.1
CS/SB oil (bulk)	6.90	2,010	2,000	50.1
Honduras: Wheat (bulk)	8.58	46,656	46,946	49.8
Indonesia:				
Wheat (bulk)	49.28	70,562	71,500	49.7
Rice (bagged)	16.00	26,987	26,945	50.0
Jamaica:				
Wheat (bulk)	18.36	44,800	7,875	85.0
Corn (bulk)	0	0	31,574	0.0
Rice (bagged)	32.35	5,277	11,039	32.3
SBO (bulk)	0	0	1,802	0.0
Blended foods (bagged)	20.10	2,194	0	100.0
Kenya: Wheat (bulk)	85.10	12,000	18,929	38.8
Liberia: Rice (bagged)	67.40	25,324	18,993	57.1
Madagascar:				
Rice (bagged)	72.87	11,654	12,759	47.7
SBO (drummed)	72.87	1,218	0	100.0
Morocco:				
Wheat (bulk)	24.42	170,600	115,550	59.6
Barley (bulk)	0	0	43,050	0
Pakistan: CSO/SBO (bulk)	33.72	38,099	22,000	63.4
Peru:				
Wheat (bulk)	15.54	33,458	33,458	50.0
Rice (bagged)	31.32	13,298	13,298	50.0
Sierra Leone:				
Wheat (bulk)	66.48	6,300	6,724	48.4
Rice (bagged)	66.48	3,402	0	100.0
Somalia:				
Wheat (bagged)	0	0	5,882	0.0
Wheat flour (bagged)	62.25	13,050	3,859	77.2
Rice (bagged)	40.57	7,148	11,657	38.0
CSO/SBO (drummed)	64.24	4,111	2,000	67.3
Sri Lanka: Wheat (bulk)	45.69	130,946	171,007	43.4
Sudan:				
Wheat (bulk)	31.84	118,652	108,999	52.1
Flour (bagged)	68.04	33,626	33,639	50.0
Tunisia:				
Wheat (bulk)	22.48	4,250	25,003	14.5
Corn (bulk)	30.48	44,701	24,000	65.1

CALENDAR YEAR 1984 CARGO PREFERENCE TITLE I/III, PUBLIC LAW 480 AS OF DECEMBER 31, 1984—Continued

	Average OFD (dollars)	United States (MT)	Foreign (MT)	United States (percent)
Yemen:				
Flour (bagged)	0	0	4,707	0
Rice (bagged)	77.71	5,198	0	100.0
Zaire:				
Wheat (bulk)	75.02	20,500	53,799	27.6
Flour (bagged)	0	0	6,485	0
Corn (bulk)	82.80	12,850	0	100.0
Zambia:				
SBO (bulk)	0	0	8,549	0.0
Rice (bagged)	60.40	6,969	0	100.0
Wheat (bulk)	66.50	9,000	8,421	51.7
Totals:				
Wheat	29.27	1,651,713	1,523,044	52.0
Wheat flour	50.24	300,272	300,918	49.9
CS/SB oil	35.77	49,497	75,625	39.6
Rice	44.54	152,585	138,551	52.4
Corn	21.40	193,760	194,579	49.9
Blended foods	20.10	2,194	0	100.0
Barley	0	0	43,050	0
Grand totals	32.42	2,350,021	2,275,767	50.8

USDA - TITLE I FREIGHT RATE DIFFERENTIALS

(Dollars per Tons)



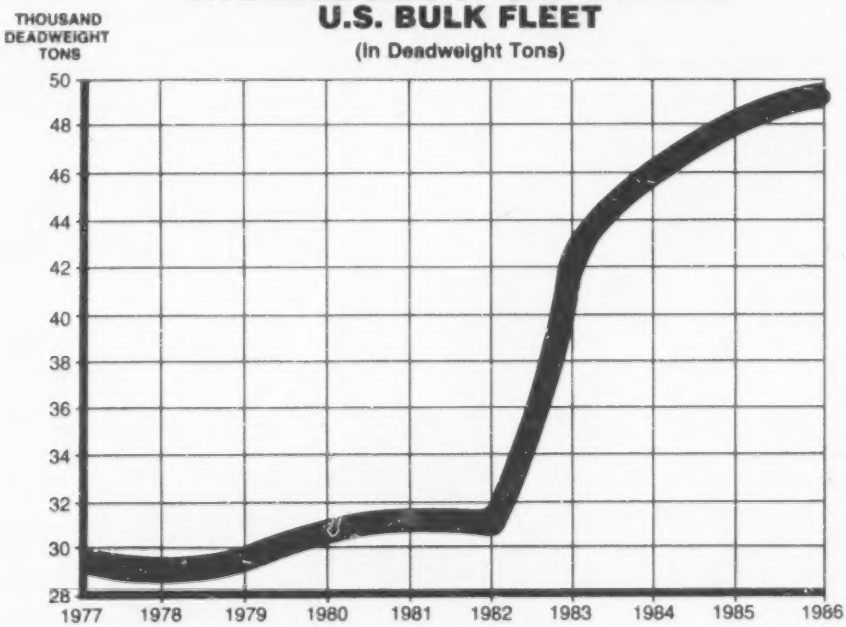
DATA SOURCE: MARITIME ADMINISTRATION

AVERAGE AGE OF THE U.S. BULK FLEET

DATA SOURCE: *MARITIME ADMINISTRATION*

AVERAGE SIZE OF SHIPS IN THE U.S. BULK FLEET

(In Deadweight Tons)



DATA SOURCE: *MARITIME ADMINISTRATION*

Senator STEVENS. Mr. Drozak.

STATEMENT OF FRANK DROZAK, PRESIDENT, SEAFARERS INTERNATIONAL UNION

Mr. DROZAK. Thank you, Mr. Chairman.

Mr. Chairman, I have a summary of my statement. I would like my full statement to appear in the record.

Senator STEVENS. Yes, it will.

Mr. DROZAK. Members of the subcommittee, I am president of the Seafarers International Union. While my comments today reflect the views of SIU, I would like to point out I am a member of the broad-based coalition consisting of 35 maritime-related groups.

I appreciate this opportunity to express our strong opposition to S. 664 and similar legislative proposals. If enacted into law, these measures would seriously threaten the U.S. merchant marine and thus weaken U.S. national security and the economy without achieving any compensating benefits to American farmers.

The impetus behind the many and varied anticargo preference bills is the recent U.S. district court decision in the case of *Transportation Institute* v. *Dole*. This court case held that the Department of Agriculture's Blended Credit Program is subject to the Cargo Preference Act of 1954.

Under the 1954 act at least 50 percent of Government-financed commodities must be shipped on U.S.-flag vessels. Contrary to assertions from the agricultural industry, however, the court decision in no way exands the 1954 act, nor is there any inconsistency between the court's ruling and previous authoritative interpretations of the cargo preference law.

The court decision merely reflects USDA's prior unlawful denial of the maritime industry's legal right. Agricultural interests have charged that the court's decision has severely injured American farmers and harmed U.S. agricultural exports.

It is important that we separate fact from fiction and identify what harm actually has resulted from this controversy, and who has caused this injury. The fact is that after the court's decision was handed down in February, Agriculture Secretary Block suspended all further shipments under the Blended Credit Program.

Nothing in the court's decision required USDA to suspend the program and we never sought its suspension in the litigation. Because of this suspension, however, it is now the farmers who are being directly injured. These farmers are suffering not from the court's decision, but from Secretary Block's unilateral and arbitrary action.

It has been stated that these cargoes are sitting on the docks waiting to be shipped. If this is indeed the case, one must ask the question, what is the cost to the Government or to the farm community for the storage of these commodities?

I suspect that when all is said and done the costs associated with the storage of these commodities will not be too far from the additional cost that would have been incurred if the USDA had chosen to initially adhere to the cargo preference law.

We share the frustration of members of Congress and the members of the agricultural community over the program's suspension. We hope Secretary Block will reconsider his decision.

While agricultural interests have decried the cost of cargo preference, the fact is, however, that cargo preference requirements affect neither the price that American farmers receive for their goods nor the price paid for commodities by their overseas customers.

The cost differential between U.S. ships and foreign vessels is paid for by the Government and all its taxpaying citizens as a part of a longstanding national policy of support for the U.S. merchant marine. Because this cost is paid for by the Government, eliminating cargo preference as it applies to agricultural exports would do nothing to enhance and promote U.S. agricultural exports.

However, it would have a severe and incapacitating effect on the U.S. merchant marine and would penalize the U.S. fleet, a fleet which is now being modernized to bring down rates and lower transportation costs.

Moreover, the SIU and other maritime unions, as well as the vessel operators, are constantly striving to reduce operating costs as far as possible. I know that for the SIU at least, we have been able to significantly decrease labor cost.

For example, whereas a couple years ago an older 30,000 dead-weight-ton bulk vessel had an unlicensed crew of 28, that vessel has now been replaced by a new 55,000 dead-weight-ton vessel with an unlicensed crew of 12 to 14 crew members.

To reduce costs further, the SIU has frozen its wage scales at 1983 levels. For our members, these measures have resulted in a reduced number of jobs at lower pay, but at least it has guaranteed the existence of some jobs and helped to increase the competitiveness of the U.S. fleet.

The international trade problems plaguing U.S. maritime are identical to those afflicting U.S. agriculture. Cutrate and highly subsidized foreign competition, the high dollar, restricted foreign policies, discriminatory practices, and other nontariff barriers have both choked off U.S. agricultural markets overseas, and all but knocked off the U.S. merchant marine from the world's oceans.

As a consequence, neither agriculture nor maritime has been able to compete against Government-backed foreign competition.

Mr. Chairman, at this point I would like to say that I can personally appreciate the problems facing the American farmer. You see, I was born and raised on a small farm down in Alabama. I know how difficult it is to work on a farm and make a living of it.

In fact, I am still personally involved in farming. At our training school in southern Maryland, we have over 1,600 acres under cultivation to provide food for the school and its trainees. On this farm we grow everything from soybeans to corn, and raise anything from hogs to cattle. This farm is as important a lifeline to our school as the Nation's farms are to the country as a whole.

From this experience we recognize the vital need for a healthy agriculture sector in the United States, and as a consequence, we have continually supported the American agricultural community.

However, while we support the broad Federal support and subsidy programs that benefit the agricultural community, we are con-

cerned with the constant criticism of maritime programs by agricultural interests.

It seems a bit ridiculous that an agriculture industry which received over $27.7 billion in Government subsidy in 1983, would begrudge another industry for its subsidy of less than $548.8 million in that same year.

This kind of antagonism is ultimately counterproductive for both constituents. Many agricultural groups have tried to portray the U.S. Merchant Marine as the main source of agriculture's problems.

The President of the Fertilizer Institute went so far as to say that repeal of cargo preference laws "could do more for farmers than virtually any other action." This is quite an amazing statement, given the fact that in the fiscal year 1984, agriculture preference cargoes accounted for less than one and one-half of all agricultural exports.

Mr. Chairman, passage of any legislation to water down the Cargo Preference Act will do nothing to help the American farmer, but will seriously penalize our U.S.-flag maritime fleet.

Instead of spending time and effort in the consideration of this legislation, we would prefer to work together with agriculture to seek policies that can serve our mutual interests and the larger interest of our Nation in preserving these two vital industries, our fleet and our farmers.

I urge the committee to reject S. 664 or any other initiative that benefits no one at the expense of the U.S. Merchant Marine.

The Government-aided sale of farm products abroad is a national export, not a private export. American shipping should be a part of that national export process.

Furthermore, I urge that the members of this committee take whatever steps may be necessary to get the blended credit cargoes moving again. Suspension of the blended credit program harms everyone involved, as well as the nation as a whole.

Mr. Chairman, that concludes my summary remarks. I would just like to say that I concur with the proposed recommendations of Jesse Calhoon.

I would, however, like to get more clarification on how Mr. Calhoon's proposal would apply to bulk ships in general. If Mr. Calhoon's proposal applied only to the carriage of Public Law 480 cargo and blended credit, then I think I can support it.

Thank you.

[The statement follows:]

STATEMENT OF FRANK DROZAK, PRESIDENT, SEAFARERS INTERNATIONAL UNION OF NORTH AMERICA

Mr. Chairman and members of the subcommittee, my name is Frank Drozak and I am president of the Seafarers International Union (SIU). I am also a member of a broad based industry coalition consisting of over 35 maritime related groups which opposed any alteration of U.S. cargo preference laws.

On behalf of the SIU, representing thousands of unlicensed seamen aboard U.S.-flag vessels engaged in this Nation's foreign and domestic shipping trades, I appreciate this opportunity to express our strong opposition to S. 664 and similar legislative proposals to weaken the Nation's long-standing cargo preference policy with regard to U.S. agriculture export trades.

While my comments today will generally address S. 664, they are equally applicable to any one of a number of similar proposals introduced in the Congress. If en-

acted into law, these measures would seriously threaten the U.S. merchant marine, and thus weaken U.S. national security and the economy, without achieving any compensating benefits to American farmers.

The impetus behind the many and varied anti-cargo preference bills is the recent U.S. District Court decision in the case of *Transportation Institute* v. *Dole*. This court case held that the Department of Agriculture's Blended Credit Program is subject to the Cargo Preference Act of 1954. Under the 1954 Act, at least 50 percent of government-financed commodities must be shipped on U.S.-flag vessels. Contrary to assertions from the agriculture industry, however, the court decision in no way expands the 1954 Act, nor is there is any inconsistency between the court's ruling and previous authoritative interpretations of the cargo preference laws. The court decision merely reflects USDA's prior unlawful denial of the maritime industry's legal rights.

While apparently introduced to reverse the court's decision, S. 664 goes far beyond the blended credit program and would preclude cargo preference application to essentially all USDA programs with the exception of the traditional P.L. 480 "Food for Peace" program. Other bills, such as S. 930, would eliminate cargo preference from all agricultural exports, while bills such as S. 721 currently limit themselves to a straight reversal of the court decision.

Agricultural interests have vociferously charged over the past two months that the court's decision has severely injured American farmers and harmed U.S. agricultural exports. It is important that we separate fact from fiction, however, and identify what harm actually has resulted from this controversy and who has caused it. The fact is that after the court decision was handed down in February, Agriculture Secretary Block almost immediately suspended all further shipments under the blended credit program. Nothing in the court's decision required USDA to suspend the Program, and we never sought its suspension in the litigation. Because of this suspension, however, it is now the farmers who are being directly injured without any real reason. These farmers are suffering not from the court's decision, but from Secretary Block's unilateral and arbitrary action.

We share the frustration of Members of Congress and members of the agricultural community over the Program's suspension. USDA's suspension of the Program appears to us to be simply a tactic to try to force Congress to scuttle at least part of the long-standing, national defense-related cargo preference program. But this tactic may unnecessarily cost American farmers valuable export markets that they desperately need in the meantime. Even if some form of anti-cargo preference bill is enacted, it will not happen quickly enough to solve the immediate crisis of those farmers who are affected by the program's suspension.

It has been stated in similar Congressional hearings on this issue that these cargoes are sitting on the docks waiting to be shipped. If this is indeed the case, one must ask the question—what is the cost to the government or to the farm community for the storage of these commodities? I suspect that when all is said and done, the costs associated with the storage of these commodities is not too far from any additional costs that would have been incurred if USDA had chose to adhere to the cargo preference laws. We hope that Secretary Block will reconsider his decision, and we urge this Committee to ask Secretary Block to resume shipping these cargoes while Congress considers long-term policy on this issue. He should not hold these cargoes and the American farmers hostage and run the risk of permanently losing essential foreign markets.

Despite the adversarial relationship sometimes portrayed in the media, agriculture and maritime are not, and should not be, unfriendly and unsympathetic industries. Since the earliest days of this country, the maritime and agricultural sectors of the United States have been vitally important to our Nation's economy and defense. The maritime industry has been the conduit for U.S. commerce and international trade and has provided the sealift capability needed by the military to transport troops and supplies abroad in times of war. The agriculture industry has consistently produced adequate food and feedstuffs to feed the United States, as well as a large part of the world. Together these two important industries have made America strong, and have sustained our position as the world's greatest economic power and guardian of freedom.

Unfortunately, these two interdependent industries are also both experiencing tough times. Regrettably, neither the agriculture industry, nor the maritime industry, is sharing in the economic recovery that many other sectors of the nation's economy are experiencing. The U.S. maritime industry is at its lowest point of activity in decades, with over 100 vessels laid up accompanied by a proportional loss of seafaring jobs, while the agriculture sector is also at a low ebb, with many farmers facing bankruptcy and the loss of their farms.

Compounding the depressed state of both industries is a traditional lack of cooperation. This cooperation void, dating back to 1954 when the Congress passed and President Eisenhower signed into law both the Food for Peace Act and the Cargo Preference Act, stems from the opposition of the agriculture industry to the use of U.S.-flag vessels in the transportation of agricultural commodities. This lack of cooperation, and the resulting friction between the two industries, is entirely without cause.

Cargo preference statutes require that at least 50 percent of all Government generated cargoes be shipped on commercial U.S.-flag vessels to the extent that such vessels are available at fair and reasonable rates. Agricultural interests have for years decried the cost of cargo preference, and the disincentives that preference requirements supposedly impose on U.S. agricultural exports. The fact is, however, that cargo preference requirements affect neither the price that American farmers receive for their goods, nor the price paid for commodities by their overseas customers. The cost differential between U.S. ships and foreign vessels is paid for by the Government, as a part of a longstanding national policy of support for the U.S. merchant marine.

Because this cost is paid for by the government, eliminating cargo preference as it applies to agricultural exports would do nothing to enhance and promote U.S. agricultural exports. However, it would have a severe and devastating effect on the U.S. merchant marine, and would effectively penalize the U.S. fleet—a fleet which is now being modernized to bring down rates and lower transportation costs. According to recent figures released from the U.S. Maritime Administration, the U.S.-flag dry bulk fleet, which virtually depends upon preference cargoes for survival, now consists of only 21 vessels. But it is a young fleet, with 11 of these vessels four years of age or less, and 19 of the 21 twelve years of age or less.

Moreover, the SIU and other unions, as well as the vessel operators, are constantly striving to reduce operating costs as far as possible. I know that for the SIU at least, between lower manning levels and lower wage structures, we have been able to significantly decrease labor costs. For example, whereas a couple of years ago an older 30,000 Deadweight Ton bulk vessel employed an unlicensed crew of 28, that vessel has now been replaced by a new 55,000 Deadweight Ton vessel with an unlicensed crew of only 12-14 crewmembers. To reduce costs further, the SIU has frozen its wage scales at 1983 levels. For our members, these measures have resulted in a reduced number of jobs at lower pay, but at least it has guaranteed the existence of some jobs and helped to increase the competitiveness of the U.S. fleet.

Numerous U.S. laws reserve a fair share of U.S. Government-impelled cargoes for American vessels. The purpose behind these statutes is a general consensus, formed during the early years of our nation and equally valid today, that a strong U.S.-flag merchant fleet is both necessary for strategic military reasons and desirable commercially for promoting U.S. foreign commerce. Nearly all major maritime nations throughout the world have similar laws which reserve a substantial portion of trade for their own merchant fleets. But despite the importance of maritime to U.S. national defense and the U.S. economy, and despite increased maritime support in other nations, the private U.S. merchant fleet has been permitted to decline precipitously over the past several decades.

The international trade problems plaguing U.S. maritime are identical to those afflicting U.S. agriculture. Cut-rate and highly subsidized foreign competition, the high dollar, restrictive foreign policies, discriminatory practices, and other non-tariff barriers have both choked off U.S. agricultural markets overseas, and all but knocked the United States merchant fleet from the world's oceans. Both U.S. agriculture and U.S. maritime have become victims of the Administration's overriding belief in and support for free trade and free world markets. As a consequence of this government attitude, neither agriculture nor maritime has been able to compete against government-backed foreign competition.

U.S. vessels today carry less than 5 percent of our nation's own exports and imports. Cargo preference plays an essential role in maintaining even this meager level. According to a study released in 1984 by the General Accounting Office, preference cargoes play a significant and important role in fulfilling the objective of a strong U.S. merchant marine. For the P.L. 480 program alone, preference requirements provide employment for dozens of American vessels and thousands of American workers. It is clearly evident that cargo preference has been instrumental in maintaining a base merchant fleet; without preference requirements, the survival of the entire fleet would be in doubt.

The maritime industry remains very supportive of the agricultural community and recognizes the vital need for a healthy agriculture sector in the United States. While we support the broad federal support and subsidy programs that benefit the

agricultural community, we are becoming increasingly concerned with the constant criticism of maritime programs and policies by the agricultural community. It seems a bit ridiculous that an agriculture industry which received over $27.7 billion in government subsidy in 1983, would begrudge another important American industry for its subsidy of less than $548.8 million in that same year. This kind of antagonism and friction is ultimately counterproductive for both constituencies.

Both agriculture and maritime would benefit if support programs for agricultural exports were to be increased and cargo preference requirements maintained. Under this symbiotic relationship with the federal government, U.S. agriculture would continue to receive aid in offsetting foreign government subsidies in order to increase U.S. farm exports and expand foreign markets, while U.S. maritime would receive cargo to carry. Both agriculture and maritime would grow stronger, contributing further to the U.S. economy and together benefiting the national interest.

In considering legislation such as S. 664, legislators and administrators must be cautious and avoid being swept up by the growing panic to immediatley enact any and every proposal claiming to help agriculture and enhance agricultural exports. Many agricultural groups have tried to portray the U.S. merchant marine as the main source of agriculture's problems. The president of the Fertilizer Institute, for instance, went so far as to say that repeal of cargo preference laws "could do more for farmers than virtually any other action." This is quite an amazing statement, given the fact that in fiscal year 1984, agriculture preference cargoes accounted for less than one and one-half percent of all agricultural exports. It is also surprising, given that the troubles currently afflicting American agriculture are totally unrelated to cargo preference. These problems—high interest rates, decreasing land rates, low commodity prices, and the loss of export markets—have been caused not by the U.S. merchant marine, but by uneven market forces and unfair trading practices by foreign governments.

We understand the problems currently plaguing agriculture, and we have witnessed the desperate cries of farmers looking to Washington for help. But elimination of cargo preference will do nothing to truly help these farmers. Both agriculture and maritime are essential elements of this Nation's economy and national security; it makes no sense to sacrifice one industry for the benefit of neither. The federal government has the obligation to support them equally.

Mr. Chairman, passage of any legislation to water down the Cargo Preference Act will only represent an empty gesture by Congress which will do nothing to help American farmers, but will severely penalize our U.S.-flag maritime fleet. Instead of spending time and effort in the consideration of this legislation, we would prefer to work together with agriculture to seek policies that can serve our mutual interests and the larger interest of our nation in preserving these two vital industries—our fleet and our farms.

In the past couple of weeks, I have met, as have others in the maritime industry, with representatives of the farm community. These meetings have been encouraging and I believe that together, we can work to revive the health of both of these essential American resources.

I urge the Committee to reject S. 664, or any other initiative that benefits no one at the expense of the U.S. merchant marine. The government-aided sale of farm products abroad is a national export, not a private export. American shipping should be a part of that national export process. Furthermore, I urge that the Members of this Committee take whatever steps may be necessary to get the blended credit cargoes moving again. Suspension of the blended credit program harms everyone involved, as well as the nation as a whole. We cannot afford to lose export markets out of spite for any particular American industry.

Thank you.

Senator STEVENS. We will suspend the panel for just a moment. Senator Boren has tried for the third time to come back and give his statement.

Why don't you come up now.

STATEMENT OF HON. DAVID L. BOREN, U.S. SENATOR FROM OKLAHOMA

Senator BOREN. I apologize to the panel.

My thanks to you and the members of the subcommittee. I have been called to other meetings several times. I appreciate your patience with me in allowing me to make a statement at this time.

I am cosponsor of this bill, S. 664, with Senator Nickles as well as a similar bill, S. 721, which is pending consideration by the Senate Agriculture Committee at this time.

I strongly believe we must act swiftly to enact legislation to reverse the court case which expanded the scope of cargo preference requirements.

The decision by Judge Green in the Transportation Institute case has resulted in the discontinuation of the blended credit program by drastically reducing the resources available for promoting export sales of agricultural commodities.

This decision effectively negates some $536 million (3.6 million metric tons) worth of grain exports.

The decision upsets the longstanding policy of cargo preference application. Prior to the ruling, the Department of Agriculture abided by a 1963 Justice Department opinion exempting direct credit, blended credits and credit guarantees from the 50 percent U.S.-flag vessel cargo preference rule.

The recent court ruling negates the previous decision with respect to the blended credit program and opens the door for application of cargo preference to the GSM-102 (credit guarantee) program.

The decision by the court is a major expansion of cargo preference and will prove very costly to the United States through reduced farm exports.

Additionally, the ruling will negate other innovative export incentive programs under consideration which are needed to meet foreign competition and offset the strength of the U. S. dollar.

We are now working on the farm bill in the Agriculture Committee. These new kinds of export programs are badly needed to meet foreign competition and also to counter the strong U. S. dollar which is decimating our friends in the maritime industry as well.

Applying cargo preference requirements to blended credit will increase the landed cost of U. S. grain by 15 to 30 percent. This more than offsets the 2 percent interest buydown provided to buyers through blended credit.

There is no question that the application of cargo preference to the blended credit program will substantially reduce the amount of grain exported under this program. I understand there were some comments about this this morning.

It will reduce it because the added cost of Public Law 480, as a result of cargo preferences have increased year after year, thereby reducing the amount of money available for the shipment of agricultural products.

To fully understand the impact this decision will have, it is relevant to note the costs of cargo preference over the past few years. In an April 6, 1983 letter from Maritime Administrator Shear, several interesting facts were brought to light.

First of all, the USDA/FAS subsidy to the maritime industry was $63 million in 1980, $65.1 million in 1981, and $97.7 million in 1982.

The total number of seamen involved in the shipment of agricultural exports amounts to 1,668. If one were to break down merely the USDA/FAS subsidy, it would amount to over $58,000 per

seaman in 1982. The total subsidy to the maritime industry from all agencies, amounted to $174.4 million in 1982.

I might mention 97 percent of all farmers we talk to receive less than $25,000 per year in subsidy.

Senator STEVENS. That really is not fair. I have been patient. Those seamen don't own those vessels. They are not paying the cost of fuel oil and all the other operating expenses. They are not equivalent to farmers.

Senator BOREN. We are talking about jobs, Mr. Chairman, I would argue it would be relevant. That is how much. We have 1,668 jobs involved.

Senator STEVENS. The point program is to keep the entire Merchant Marine, viable, not just the seamen.

Senator BOREN. I am not at all unsympathetic to that point. I think you will see that as I go along and make some other comments along that line. It is rather difficult to explain when you are talking to the agricultural community.

In my State in 1983 the average per farm net income was $14. Our 88,000 farm units produced $2 million income and it worked out to $14 profit for the year. It is a little difficult to explain the difference to them when you look at per seaman as opposed to per farmer, the difference.

I understand what you are talking about.

Senator STEVENS. I represent a State whose residents pay the highest Federal taxes per capita in the country. You look at just taxpayers, rather than the State's population we are off the graph. You come along with me sometime when I am talking to my people about supporting our farm subsidies.

Senator BOREN. I will be glad to do that, Mr. Chairman. I would welcome the opportunity because I would like to point out to them how cheap their food is, and I know costs are somewhat higher in Alaska because of transportation and weather and other problems, but when we talk about subsidies, the average Western European country, average development country in the world, the workers in those countries, Japan, West Germany, and Britain, pay 26, 27 percent of their disposable income—in many of those cases, the Japanese income is as high as our own, West Germany's is comparable—for food. We only pay 15.5 percent.

I would argue in the larger sense that we are all being subsidized by the agricultural community. It far offsets $21 or $22 billion in all the costs.

I am not making an anti-Merchant Marine statement. I am just making a statement about the condition that agriculture is in. They cannot continue to subsidize all the rest of us, be it all of us as consumers or be it the Merchant Marine.

These two sectors have more in common than they have differences.

The Merchant Marine has suffered from the high dollar just as agriculture has. When we have had trade embargoes, these sectors have suffered as agriculture has. In many ways they are both serving the total community and they are both suffering the same problems. It is not that farmers are unwilling; rather, they are simply running up against their ability to pay.

I am not unsympathetic to what my friends on this panel, and I heard the comments Mr. Calhoon made earlier and I heard some of the comments Frank Drozak was making when I came in. I think it is very, very important when you have two sectors that are vital to the security of the country, both in trouble.

I am not an unsympathetic person to the Merchant Marine, I think they do have legitimate problems and I think they are vital to the security of this country. I don't want to see the Merchant Marine destroyed. All I am saying is at this particular moment in time the agricultural community simply cannot be the ones that bear the cost.

I would point out, too that it does increase the cost. According to the Agency for International Development, AID, the additional cost of shipping on U.S. vessels under Public Law 480 alone was 77.6 million in 1983. $97.5 million in 1984 and estimated to run around $1,183 million in 1985.

Senator STEVENS. The differential is paid by the Government.

Senator BOREN. Let me point out, though, it is claimed it does not cost the American farmer anything. That is not correct because the application of cargo preference reduces the amount of money available for the export of agricultural products.

Senator STEVENS. It reduces the amount of Federal money available to buy products from the farmers?

Senator BOREN. Yes.

Senator STEVENS. That is not increasing the farmers' cost. It is decreasing his ability to sell to the Government as a preferred buyer as opposed to selling in the private market.

Senator BOREN. When the U.S. Government buys and ships less, blended credit and Public Law 480, we increase the carryover stock level, the surplus, you might say, the domestic surplus, of U.S. grain which has a very direct relationship to depressing the price.

We can nearly always determine what is going to happen to prices by looking at what we call the year-end stocks. When the year-end stocks, carryover surplus stocks, go up because we are not able to ship them overseas, we have this carryover hanging over the market which greatly depresses the price. This decreases the farmers' income.

So, I do think it has a relationship and it is likely this year that we will have the highest level of year-end wheat stocks in history, 43 million tons. Government wheat stocks are estimated to more than double this year with annual cost to the Government of $150 to $170 million just to store the grain.

This is the point I want to make clear, I am as sincere as I can be when I say to my friends at this table that I am on their side in terms of wanting to see the Merchant Marine survive.

I think it is vital to our Nation's security, not only economically, but militarily. We want to keep it; we need it. I am an American flag person when it comes to purchasing American products and American services. I do think we have to consider what is being done here.

By the way, we are working on the farm bill, Senator Boschwitz and I happen to be pushing a different approach to the farm bill which will increase our overseas sales and hopefully part of that increase will ultimately renown to the benefit of the American

shipper as well and the transportation industry. I do think we have to find a different way.

I would like to see us get this Blended Credit Program going again. I understand the Secretary has cut it off because he says it will cut into the cost, as the shipping costs go up, of what he can ultimately get out.

Maybe we can come up with some sort of solution. I hope the committee will explore that.

It will not be just a one-time basis, as Mr. Calhoon was saying, but I hope we will look at what might work on a one-time basis as a pilot program for the future.

Very few of our colleagues, frankly, understand that we are subsidizing in essence the merchant marine through the agricultural trade function right now. The agricultural function gets so much money. I don't think it is clearly understood by everyone involved in the Budget Committee that a portion of that goes to the merchant marine.

I do not object and I want to state again I do not object to the merchant marine subsidy, if you want to call it that. I think we have a legitimate national interest to be served in keeping those American-flag vessels afloat, modernizing that fleet, putting it into a condition that will make it even more competitive in the future.

I think we are all for that. I would urge we should find some other way to do that. If we want to continue to do it through the agricultural function in the Budget Act, that that be done as a separate line item in a separate function, or that we consider doing it through the Maritime Administration or Defense Department or through some other mechanism than by putting it on the farmers.

I will say that I agree it will be an overexaggeration to say that if we simply do away with cargo preference, the expansion of it or the existence in our program as we have had it in the past, that this alone will turn around the agricultural situation. It will not.

None of us wants to cast a heavy blow against the maritime industry in a way that will help agriculture, but still not solve its problems. I hope this committee and the Agriculture Committee as well—as I say, we are looking at approaches there—can find a way to help.

We have two groups in trouble. They are both hard-working, productive groups. I hope we can find a way that can get us allied as we should be instead of arguing back and forth. I think the best way to do that is to find some other identifiable mechanism to some of the problem so that it does stand out and it does not take away from funds that could be expanded and getting the carryover stock down and getting the overhang on the farm products out of the way.

I would ask unanimous consent that the balance of my formal statement that I have prepared appear in the record.

Senator STEVENS. I commend you for your balanced position with regard to the maritime industry. It does seem to me as I view the farm economy, that the strong dollar abroad has more to do with the problems of the farm community than the minuscule subsidy dealing with maintaining a merchant marine.

I don't have any objection to your suggestion. We will be happy to put cargo happy to put it in the Maritime Adminstration budget

or, as far as I am concerned, in the Department of Defense budget. It is a defense concept.

Senator BOREN. It really is.

Senator STEVENS. It is support for the maintenance of a merchant marine for the Nation. I still cannot understand your argument that somehow this program is borne by the farmers. It is not borne by the farmers. It may reduce the amount that the farmer may sell to the Government because the Government has only so much money.

We can move it over to the Maritime Administration budget and it still is no more money.

Senator BOREN. There is more money for shipping this grain. It reduces the total cost on the farm budget.

The Secretary of Agriculture is willing to pay this out of agricultural funds, CCC, and so on.

What happens is this. As I mentioned, it is not a direct relationship, you are correct. It is not direct. It is indirect, but still very important.

We have farmers that put their grain into storage under a loan program, let us say. Those carryover stocks become very important and the market, the futures market, the rest of the market react to how big is the carryover stock.

If you were in the business of predicting wheat prices next year, you would look at weather, including anticipated international demand, and so on, but one of the things you would look at is the size of the carryover stock.

Anytime we do anything that increases the cost of moving a few more of those bushels overseas to get that carryover stock down, we decrease the amount of exports and increase that overhang on the market which does have an impact on the wheat price and, therefore, on the cash income of the farmers.

As I say, you will find me, and I hope I have an opportunity to live up to that pledge, you will find me if we find some other mechanism of providing this payment to keep the Merchant Marine strong, you will find me very much in support of it.

I believe in it and I believe most of the people I represent in Oklahoma do. We are American flag purchasers. We believe in buying American.

Many of the people in the rural areas I represent feel most strongly about it. Very rarely you will find something utilized that is not made in this country. I am very sympathetic.

It is just a matter that even at the margins, and you are right, compared to the overvalued dollar, it is certainly not the solution of the agricultural problem overall.

But 1, 2, 3, 5 percent, any help we can get right now, we are so desperate, anything we can do to improve things, even 5 percent, that might mean a few people could hang on who could not otherwise. So, it is important to us.

I understand this committtee must look at it and strike a balance. I appreciate that. I appreciate your interest. As I say, I am not here to cast stones at our merchant marine industry, but just to make an appeal for the Department of Agriculture to say let us try to fashion a solution that will help both groups that are in trouble.

Senator STEVENS. Senator Inouye.

Senator INOUYE. Thank you very much.

I would just like to make a couple of observations.

First, the District Court decision did not negate or suspend the blended credit program.

Senator BOREN. No, sir; not in and of itself.

Senator INOUYE. Nor did it suggest that that be done. In fact, I can't think of any organization suggesting the suspension of the program. I think it was a unilateral decision on the part of the Secretary of Agriculture.

Therefore, the Secretary could this afternoon reinstate the progaram. The moneys are there. The only ones who are suffering are the farmers. This was not brought about by the shipping industry.

The second observation I would like to make is that I believe it is proper at this juncture to give credit where credit is due. I have been on this subcommittee and followed the development of the industry and I note in the last 2 years every labor union involved in the maritime industry has either, one, lowered its managing levels or somehow restructured their wage program so that they have reduced salaries now.

For example, as Mr. Drozak testified this morning, the case of unlicensed crews, they have reduced them by almost 50 percent. On top of that their pay scale now is frozen to the 1981 level. I can't think of any other group of workers in the Untied States who have gone that far in reducing their pay scales to the 1981 level.

I note in your testimony you have suggested that the subsidy would be received by the sailors. I think the record should be made clear that the sailors did not benefit from any pay raise. They benefited because the shipping industry still existed.

I think without this last vestige of the subsidy program we would have no maritime industry in the United States.

Senator BOREN. Yes, sir. I appreciate your comments.

By no means did I intend to infer that the sailors were getting those kinds of wages or those kinds of increases because I understand it was to keep the jobs in being and I know that they have been frozen.

Again, I think that is why I am so sympathetic.

I would point out in agriculture it is much the same situation. As you know, the price levels, parity levels, measured against purchasing power, are even lower now than they were in 1930.

So, we have a situation there also where you have a good many people who are worse off than they were even 40 years ago in terms of purchasing power. I am sympathetic to what you say.

It is true that the judge did not order the suspension, that that was a decision made by the Secretary with the decision that I think was based upon the hope that we could get the matter resolved so the cost could be reduced to that particular program.

I think we should and I hope we can find common purpose through some method of funding this thing temporarily where it would not increase cost, go ahead and use American flag vessels, as suggested this morning, without additinoal cost, something to get this thing moving now while we work on a long-range solution. I think that would be very helpful.

When I think about the situation we are in, the farmers and merchant marine, they are both in trouble and they need to be building allies. They can be very important allies to each other and should be. There is really a community of interest.

I hope we can build that and make a joint approach to our colleagues in the Department of Agriculture and everyone else. It is something that will help both groups. That is what I urge us to do. That is the way I want to work toward the solution. You and I can help push that process along.

Senator STEVENS. Thank you very much.

Senator BOREN. Thank you very much.

I again thank the members of the panel for letting me intervene and listen to their testimony.

[The statement follows:]

STATEMENT OF HON. DAVID L. BOREN, U.S. SENATOR FROM OKLAHOMA

Mr. Chairman, I appreciate your providing me the opportunity to testify on S. 664, Senator Nickles bill on cargo preference. I am a cosponsor of this bill as well as a similar bill, S. 721, which is pending consideration by the Senate Agriculture Committee.

I strongly believe we must act swiftly to enact legislation to reverse the court case which expanded the scope of cargo preference requirements. The decision by Judge Green in the Transportation Institute case has resulted in the discontinuation of the blended credit program by drastically reducing the resources available for promoting export sales of agricultural commodities. This decision effectively negates some $536 million (3.6 million metric tons) worth of grain exports.

The decision upsets the long-standing policy of cargo preference application. Prior to the ruling, the Department of Agriculture abided by a 1963 Justice Department opinion exempting direct credit, blended credits and credit guarantees from the 50 percent U.S.-flag vessel cargo preference rule. The recent court ruling negates the previous decision with respect to the blended credit program and opens the door for application of cargo preference to the GSM-102 (credit guarantee) program.

The decision by the court was a major expansion of cargo preference and will prove very costly to the United States through reduced farm exports. Additionally, the ruling will negate other innovative export incentive programs under consideration which are needed to meet foreign competition and offset the strength of the U.S. dollar.

Applying cargo preference requirements to blended credit will increase the landed cost of U.S. grain by 15 to 30 percent. This more than offsets the 2 percent interest buydown provided to buyers through blended credit.

There is no question that the application of cargo preference to the blended credit program will substantially reduce the amount of grain exported under this program. The added costs of Public Law 480 shipments as a result of cargo preference have increased year after year, thereby reducing the amount of money available for the shipment of agricultural products.

To fully understand the impact this decision will have, it is relevant to note the costs of cargo preference over the past few years. In an April 6, 1983, letter from Maritime Administrator Shear, several interesting facts were brought to light. First of all, the USDA/FAS subsidy to the maritime industry was $63 million in 1980, $65.1 million in 1981, and $97.7 million in 1982. The total number of seamen involved in the shipment of agricultural exports amounts to 1,668. If one were to break down merely the USDA/FAS subsidy, it would amount to over $58,000 per seaman in 1982. The total subsidy to the maritime industry, from all agencies, amounted to $174.4 million in 1982. This breaks down to a per seamen subsidy of over $104,000.

According to the agency for international development (AID), the additional costs of shipping on U.S.-flag vessels under Public Law 480 alone were $77.6 million in 1983; $97.5 million in 1984, and are estimated to run $118.3 million in 1985.

The application of cargo preference requirements to the blended credit program will result in increased costs of approximately $50 million in 1985. If cargo preference is applied to the GSM-102 (credit guarantees) Program, an additional $125 million will be needed for additional shipping costs.

Mr. Chairman, there are those who claim that the application of cargo preference does not cost the American farmer anything. This is far from true. The application of cargo preference reduces the amount of money available for the export of agricultural products, which in turn, results in higher stock levels of U.S. grains. If the court decision is permitted to stand, it will likely result in the U.S. having the highest level of year-end wheat stocks in history, over 42 million tons. Year-end government-owned wheat stocks are already estimated to more than double this year with an annual cost to the government of $150 to $170 million to store this grain. The cost of storing an additional 3.6 million tons will likely total another $50 to $55 million.

I agree that it is vital to maintain the merchant marine. That is not an issue today and was not really the issue of the court decision. Rather, the issue is whether the American farmer should primarily bear the burden of subsidizing the merchant marine. If the merchant marine is in need of more subsidies than were already provided prior to the court decision, let us acknowledge the need to increase funding for the maritime industry and let all Americans share the cost. I would suggest that we provide for cargo preference costs to be funded out of the Department of Defense or Maritime Administration budget. It is simply not fair to ask American farmers to pay the cost of what is to benefit the entire Nation. Frankly, I don't see how I can tell my Oklahoma farmers that we need to increase the amount of the subsidy that farmers pay to seamen, who in 1982 were subsidized over $100,000, while at the same time, farm income substantially decreased.

Net farm income, in constant dollars, is at its lowest since the great depression. The subsidy for cargo preference taken out of the USDA/FAS budget, alone, is higher than it has ever been. Once again, it appears that our farmers are being asked to pay when he is least able to afford to pay.

Mr. Chairman, we are facing a crisis in agriculture. It is estimated that we will lose 13 percent of our farmers in Oklahoma this year due to lack of adequate income. How can I defend a policy that wants to take even more income away from the remaining farmers? I cannot. We must act quickly to reverse the court decision. The legislation we have introduced will allow us to do so.

S. 664 will make certain that cargo preference requirements do not apply to export activities of the Commodity Credit Corporation and the Department of Agriculture, except for those related to its traditional food assistance programs. While I expect the recent court decision to be appealed and subsequently reversed, I do not believe we can wait for the court to act. Each day the blended credit program is not in operation, we are losing valuale export sales.

S. 664 does not take anything away from the merchant marine industry that it claimed prior to the court decision.

S. 721 will merely preserve the cargo preference requirements for the kind of transactions that historically have been subject to cargo preference—namely, exports under the Agricultural Trade Development and Assistance Act of 1954 (Public Law 480). Under our legislation, the CCC and USDA could continue those programs that make exports of U.S. agricultural commodities competitive in world markets with sales of other countries without having to fund the extra expense attendant to cargo preference. These include, among others, the CCC Export Sales Program (GSM-5), the CCC Export Credit Guarantee Program, and the Blended Credit Program which combines credit under the GSM-5 Program with Government guaranteed private credit under the GSM-102 Program. It also includes export subsidy programs (whether the subsidies are paid in cash or in kind) addressed to the same objective, programs under which stocks of agricultural commodities are made available to U.S. exporters, users or foreign purchasers at world prices, and any other innovative program to expand agricultural exports.

Mr. Chairman, this legislation is both timely, essential and cost-effective. We cannot stand by and watch our agricultural exports decline further. We cannot allow a further erosion of our markets due to the strength of the dollar and cargo preference requirements. We simply must act swiftly to reverse the court decision and put the blended credit program back in operation.

I commend you for calling this hearing. It is my hope that the committee will immediately schedule a mark-up on this legislation. Thank you.

STATEMENT OF SAMUEL B. NEMIROW, COUNSEL, ON BEHALF OF THE COUNCIL OF AMERICAN-FLAG SHIP OPERATORS

Mr. NEMIROW. Thank you, Mr. Chairman.

I am appearing here this afternoon on behalf of the Council of American-Flag Ship Operators, a member of the coalition.

I thank you very much for giving Senator Boren an opportunity to make his remarks before I made mine because I was following such a distinguished panel that I couldn't find the gleanings and I wasn't sure I was going to take up any additional time of the subcommittee.

A number of issues known have been raised just recently by Senator Boren that I would like to address.

First, I would like to briefly discuss the decision of the U.S. district court in the matter of *Transportation Institute* v. *Dole* that we have been talking about, decided in February of this year.

We just heard again, as we heard repeatedly this morning, the misconception, I believe, that this decision somehow represents an expansion of the cargo preference law.

Furthermore, we hear again that it negates previous Attorney General's opinions as they related to commercial versus concessional sales. At the time the decision was handed down it seemed to be viewed in a number of quarters as a vast overreaching by the court and a radical extension of the law.

In fact, it is, and was, none of the these. The decision was simply a grant of summary judgment in favor of the plaintiff to apply the act to blended credit transactions. The decision relies not only on an extended examination of the legislative history of the 1954 act, but also on the plain meaning of the words of the statute.

A careful reading concludes quite reasonably, in anyone's judgment, that the languge of the law was intentionally broad so that there could be no question of the applicability where Government-supported financing was involved. I don't think that we should regard this decision in any way as unreasonable or, for that matter, particularly remarkable.

In short, notwithstanding the reaction to the decision, I believe we should discuss the question of the cargo preference law in the context of what is being proposed, a change in the law, a change in established policy and not in the context of the correction of an allegedly misguided legal decision.

Mr. Chairman, one of the factors I think that has not been discussed, but is underlying some of the concern of those of us in the maritime community was raised again most recently by Senator Boren. He discussed in his remarks the fact that failure to overturn this decision would have a negative impact on other "innovative" programs under consideration.

I hope I don't misquote him. This is part of the issue we are concerned about. If one can be "innovative" about blended credit and by applying a 15 percent rule impact the entire program and thereby do away with cargo preference, what other "innovative programs" are being considered, to what other programs might a blended credit type program be applied?

The second point I would like to make is basically one that focuses on the liner industry which CASO represents. Other members of the panel have discussed the rate differential as it relates to bulk cargo. Liner operations are subject to the rates that are paid and are assessed commercially. Members of CASO, as well as of other U.S.-liner companies, operate in conferences of carriers with

other mostly foreign steamship companies and publish their rates in tariffs of the conference.

Although limitations are set by law as to the eligibility for these foreign carriers, the rates for carriage of cargo is generally the same, whether carried by U.S. or foreign flag companies. Thus, there are practical commercial safeguards over the level of rates.

Beyond this there are Governmental safeguards as well since the Maritime Administration retains oversight authority over the fairness and reasonableness of the level of rates charged to the Government for the carriage of cargoes moving under Public Law 664.

The third point I would like to address is the nature of the cargo preference requirement because for years it has been viewed as some type of Government sponsorship of a favored industry. It is not. It is one of the most ancient methods under commercial law for the promotion of a national merchant fleet.

From our independence on, custom and practice fashioned a Government preference for American ships which pay our taxes, hire our citizens and serve our commerce.

When Public Law 664 was passed in 1954 it was decried by a number of our foreign friends, many of whom wished to continue carrying this cargo. The charge was that the U.S. Government had become protectionist.

One must recognize the simple fact, and that is that this is Government-generated cargo, and the law was nothing more than an extension of the age old principle that the shipper may select the carrier.

Mr. Chairman, that concludes my remarks however, I would like to put one other statistic in the record since we were facing some of those this morning.

It is my understanding from the data I have available that we are talking about the impact on the farmer community of these programs. According to the agricultural export data that I have been able to collect, in 1983 only 2 percent of agricultural exports were impacted in any way by cargo preference.

Thank you.

[The statement follows:]

STATEMENT OF SAMUEL B. NEMIROW, ON BEHALF OF THE COUNCIL OF AMERICAN-FLAG SHIP OPERATORS

Mr. Chairman, members of the Subcommittee, I am Samuel B. Nemirow, and I am appearing this morning on behalf of the Council of American-Flag Ship Operators. The membership of CASO is comprised of carriers who operate the vast majority of U.S.-flag liner vessels, including some of the most modern, technologically advanced ships in the world. CASO members employ thousands of American merchant seamen, and it is fair to say provide a competitive, efficient distribution network for American exports throughout the world.

I am pleased to be with you this morning to discuss the merits of the cargo preference program as mandated by Public Law 664. In compliance with the Chairman's request our comments address the "Blended Credit" issue and more broadly the application of cargo preference laws.

At the outset, however, I should emphasize that our remarks are limited to preference cargoes moving in the liner sector, not the bulk market which we understand is being addressed by others on the Panel here today. With very rare exceptions, CASO vessels do not move government cargoes in full shipload lots. The cargoes which we move are mainly bagged agricultural commodities, foreign aid or humanitarian relief supplies or other government financed or assisted general cargoes such as Ex-Im Bank financed equipment or machinery. While some may feel that

the cargo preference law inflates costs for American grain exporters, we must emphasize that preference shipments of all types, by they food, equipment or machinery, are only a small portion of our total cargoes, and that grain shipments are an even smaller proportion of that figure. Without in any way denigrating the complexity of this issue, I state simply and categorically that the liner industry, due to this program, has not significantly inflated the cost of exporting American grain.

Time is short, this morning, Mr. Chairman, and I do not want to belabor the record with an extended statement, but I do want to elaborate on several points.

First, I will briefly address the decision of the U.S. District Court in the matter of *Transportation Institute* v. *Dole* decided in February of this year. You recall, Mr. Chairman, that Judge Green determined that the Cargo Preference Act (46 U.S.C. 1241(b)) applied to the Department of Agriculture's blended credit program. At the time that decision was handed down, it seemed to be viewed in some quarters as a vast overreaching by the Court and a radical extension of the law. In fact, it is none of these. The decision is a grant of summary judgment in favor of the plaintiffs to apply the Act to blended credit transactions. The decision relies not only on an extended examination of the legislative history of the 1954 Act, but also on the plain meaning of the words of the statute. A careful reading concludes quite reasonably, in my judgment, that the language of the law is intentionally broad, so that there can be no question of its applicability where government supported financing is involved. I do not regard the decision in any way as unreasonable, or for that matter, even particularly remarkable.

In short, notwithstanding the reaction to the decision, I believe we should discuss the question of cargo preference in the context of what is being proposed, a change in the law, a change in an established policy, and not in the context of the correction of an allegedly misguided legal decision.

The second point we would like to make is that the rates paid under the program to CASO members are established commercially. Our members operate in conferences with other, mostly foreign steamship companies and rates published in our tariffs are conference rates. Although there are limitations set by law as to eligibility for these cargoes, the rates for their carriage are generally the same whether carried by U.S. or foreign flag companies. Thus, there are practical commercial safeguards over the level of rates. Beyond this, however, there are government safeguards as well, since the Maritime Administration retains oversight authority over the fairness and reasonableness of the level of rate charges to the government for the carriage of cargoes moving under P.L. 664.

The third point I would like to address is the nature of the cargo preference requirement, because for years it has been viewed as some type of government sponsorship of a favored industry. It is not. It is one of the most ancient methods under commercial law for the promotion of a national merchant fleet. From our independence on, custom and practice fashioned a government preference for American ships which pay our taxes, hire our citizens and serve our commerce.

When Public Law 664 was passed in 1954, it was decried by a number of our foreign friends, many of whom wished to continue carrying this cargo. The charge was that the U.S. government had become protectionist, but one must recognize the simple fact that this is government generated cargo, and the law was nothing but an extension of the age-old principle that the shipper may select the carrier.

The 1954 law was enacted largely to allow U.S.-flag vessels to participate in the business on the theory, as Senator John Marshall Butler of Maryland, sponsor of the legislation, said that while we do not object to giving away United States goods a least we are reserving the privilege of attending to the transportation.

Likewise, we find that around the world various forms of cargo reservation are the rule, not the exception. Even in Scandinavia, cabotage laws limit the coastwise trade to the national flag. In France, oil, a state cargo, is reserved to the French flag. This is a major reservation in a nation with no petroleum of its own which must therefore import all its oil by sea.

Of course, what does make our cargo preference program controversial is its alleged cost.

I would like to reinterate that cargoes, subject to the program requirements which are carried by CASO members, are generally smaller lots moved in some packaged form: i.e., bagged, boxed, etc. These shipments are not easily suited to bulk transportation, or else they would be moved that way. All U.S. flag liner operators are conference minded and maintain conference membership wherever they can. The rates they charge, therefore, do not normally vary from the uniform market rate.

Consequently, this is a maritime program which aids U.S. carriers, but, in effect, at little additional cost to the government.

It should be pointed out that present-day government, notwithstanding the requirements of the law, does have some loyalty to the U.S. flag fleet. For example, the report entitled "Economic Effects of Cargo Preference Laws" published in the General Accounting Office in January of this year found the Defense Department, because of national defense program objectives, "would use U.S.-flag ships as much as possible were there no laws requiring it to do so." And I would add, DOD accounted for 71% of the government liner cargo, according to the report.

That report also speaks to costs of the government under the P.L. 480–Title II Program, concluding that on average, U.S. flag liners cost 73 cents a ton more than foreign flag liners. Thus, the 814,000 tons of Title II cargo carried on U.S. liners in 1980 cost the federal government an extra 600 thousand dollars.

My point here is that government cargo reservation is neither new nor an unfair intrusion into the market.

On the other hand, it is useful to put this issue in its appropriate perspective. For that purpose I would quote Admiral Jim Holloway, the president of CASO, in a recent statement before the House Merchant Marine Committee:

U.S.-flag preference for Government-impelled cargoes is absolutely essential for liner operators. First, it puts them more nearly on competitive parity with their foreign-flag competition who generally carry all or nearly all of their own government-impelled cargoes. Second, these cargoes act as "seed cargo" making possible the regular sailing of U.S.-flag vessels on fixed routes with regular schedules in parts of the world where this would otherwise not be economically feasible.

This is so because where U.S. Government aid cargo is moving it is frequently the majority of the outbound cargo in the trade.

These are significant points. The fact is that foreign governments generally, by law or by custom, book public cargo on their own flag vessels. Thus, we are doing nothing exceptional in this regard. Cargo reservation is, of course, the trend today, not the exception. In addition, this cargo block affects the rates and cargo mix of all U.S.-flag companies eligible for the program. The earlier mentioned 1984 G.A.O. report cited figures from 1980, but they are worth reexamining: In the liner category, the total cargo was 20,200,000 long tons. Of this, the government concentration was 6,000,000 tons or approximately 30% of the total. Seventy-one percent of this was Department of Defense cargo, and only 18% was AID cargo. Again, however, the point is that, as those familiar with shipping realize, this bloc of government cargo gives the U.S. carrier greater pricing flexibility and, ultimately, more commercial cargoes.

Finally, the program has had its greatest impact on outbound voyages where, on some routes, substantial amounts of the outbound cargo is government impelled. Particularly in the last year when the value of the dollar has driven our national economy toward imports and away from exports, thus making outbound cargoes even more meager, this program has filled many a container slot that outwise would have been empty.

From a policy standpoint, the fact is that, in our view the reservation of government impelled cargoes at a relatively modest cost to the government, has resulted in a better and more modern U.S. merchant fleet, more seagoing jobs and ultimately, more revenue for the government itself.

I would also like to address the notion that this policy is somehow adopted on behalf of a favored industry, and that it is applied selectively. It is not. It is only one of hundreds of preferences woven into government procurement by law, custom and regulation, and is only another form of a "buy American" policy which I cannot believe anyone finds objectionable. Defense hardware is made in America. The mail and government employees fly in American air carriers. Government motor vehicles, army boots, Coast Guard cutters—all are made in the United States, and there are many, if not most U.S. industries—not just our merchant shipping—that benefit from this policy. We are not dealing with an isolated practice here, but a consistent, sound government-wide policy.

Fourth, there is a military capability issue here which cannot be dismissed. There has been a great deal of testimony on the point. I would recall the words of Vice Admiral William Rowden, spoken on behalf of the Military Sealift Command and quoted by Senator Inouye less than one year ago before this subcommittee:

Since cargo is essential to a healthy merchant marine, I believe everyone should keep (these) statistics in mind before deciding on legislation which would weaken an important element of our maritime policy, and the objectives that policy is intended to achieve.

In summary, while the cargo preference program is not the windfall to U.S. flag liner operators some would suggest, it does provide a block of "seed" cargo which

assists in booking other cargo and thus in the preservation of U.S.-flag liner operations for the multitude of purposes it serves.

Senator STEVENS. Thank you very much.

Mr. Mills, Senator Danforth, chairman of the committee, would like to have you respond to this question: Have you or your clients ever approached the Department of Agriculture or the agricultural interest groups in an attempt to find ways to lower transportation costs?

If you have, what was the response?

Mr. MILLS. The short answer, Mr. Chairman, is yes, I have on behalf, and probably with several of my clients, approached both the Department of Agriculture and some of the other agricultural interest groups, as a matter of fact, looking at the witness list for this hearing, including no fewer than three of the people appearing or two appearing before this committee today.

I am disappointed to say, Mr. Chairman, that we got little more than a shrug. They were not at all interested across the board in reforms or things which could be done, could be undertaken within the scope of existing authority to lower the cost of U.S. flag-transportation.

It was certainly the position of the people outside the Government—I can't fairly attribute it to the people in the Government—that they would rather have the issue than the solution. For that I criticize myself in still not being able really to fathom why, given the relatively minor proportion that, both in terms of dollars and volumes, that this is in the advanced scheme of things. I can't figure it out.

Senator STEVENS. Senator Inouye.

Senator INOUYE. I believe before I proceed, Mr. Chairman, the record should show that Mr. Nemirow is a very distinguished public servant. Before he went into private practice, he first served this Government as General Counsel of MarAd and after that as an Assistant Secretary of Commerce in charge of maritime affairs. So, we do have an expert here.

I would like to ask Mr. Nemirow one question. After that I will submit [1] my other questions.

According to the most recent USDA data showing the declining U.S.-foreign freight differential, it says here for tankers in fiscal 1981, the differential was $59.47; fiscal 1982, $50.37, and fiscal 1983, $18.44. That is the differential.

Bulk carriers, 1981, $52.35; 1982, $41.44, and in 1983, a drop to $32.45.

In the case of liners, in 1981, it was 50.19. Then in 1982 it was 63.03 and in 1983, 49.36.

Why is the liner differential so high when preference cargo moves at the liner conference rate?

I would think by definition there should be no differential, isn't that correct?

Mr. NEMIROW. I think I can address those numbers.

I thank you for your kind remarks.

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[1] The answers were not received before going to press on November 27, 1985.

I believe when you look at the statistics, there are certain cargoes, particularly under title II, which move in parcel lots which are carried by liner vessels in normally smaller volume. That is an efficient use of a liner vessel and typically title II cargoes move on liner vessels.

On a spot or occasional basis, which always yields the highest rate, certain commodities under title I, rather than moving in bulk or tanker vessels, move in liner vessels. That is probably a rare occurrence, but it distorts the figures because typically charter cargoes moving in large volume are not efficiently carried in liner vessels.

There are also other questions I would have on those statistics in terms of what percentage of those cargoes move in bulk and what percentages move in bags and what moves on a spot or tanker basis versus what moves on a liner basis.

I will be happy to work with the staff and do an analysis. I think those issues have to be addressed as well as the differences between title I and title II, spot versus charter movements as well.

Senator INOUYE. I think an explanation should be made because whereas the tankers and bulk carriers have gone down, with the liners it has stayed the same.

Mr. NEMIROW. I believe if you take the actual fixtures, you will find there are spot fixtures that are random and placed all over the chart. I am just guessing at that. I would like to sit down and do an analysis.

Senator INOUYE. The other question I have relates to Mr. Calhoon's testimony which suggested that we have in existence a sleaze activity.

You were General Counsel of MarAd and Assistant Secretary of Commerce for Maritime Affairs. During the period of your service were you aware of these sleaze activities?

Mr. NEMIROW. No, I wasn't. I hadn't heard of the red Cadillac story before. But I am sure Jesse has evidence to back that up or he wouldn't present it to the subcommittee here today.

There are costs that are incurred in shipping cargoes in general related to lighterage of large U.S.-flag vessels that probably are not incurred by foreign flag vessels of a smaller configuration.

Lighterage is a very expensive exercise in many of the foreign ports. I am not sure how lighterage contracts are entered into. Much of that is done by the carrier's agent overseas.

Senator INOUYE. Do you think we need brokers to assist us with this program as we have now or could we have the Government involved directly?

Mr. NEMIROW. I think that is again something we would have to take a look at. I am not trying to dodge the question. On a title I program you are dealing with a foreign government that is responsible for the acquisition and transportation of these commodities.

You would have to change the whole character of that program to get the U.S. Government involved as the chartering entity. Those activities are in title I are handled by the foreign government as part of their purchasing arrangements. You would have to change the nature of that program.

As to title II, voluntary agency donations, government-to-government donation cargo, it would probably be much easier to implement that kind of system.

Senator INOUYE. My last question and the question I asked Mr. Calhoon: Are you satisfied that the cargo preference laws are being carried out efficiently?

Mr. NEMIROW. No.

Senator INOUYE. Thank you.

Senator STEVENS. Senator Gorton.

Senator GORTON. I have a comment or observation and then a question.

You were here I think this morning, as a matter of fact, your written testimony refers to it. I found a certain degree of frustration with Mr. Goldberg. I guess I would have to observe that at least to a certain degree you have reaped as you have sowed the wind and reaped a whirlwind.

You won a lawsuit and the net result of that lawsuit so far is that the Department of Agriculture has stopped the program, thus doing no one any good.

We are facing a group of bills. As I read the bill, none of them is designed simply to restore what Mr. Goldberg so plainly referred to as the status quo ante. They are all directed either at the entire subsidy argument or only Public Law 480 cargo.

I am inclined to think the reason for that is that a program in which the merchant marine has reaped modest benefits from a program directed primarily at agriculture, I feel for maybe 10 percent of the money appropriated to it, a percent at least in the case of blended credit programs that the merchant marine was able to receive the lion's share of the money.

Senator Boschwitz in written testimony he submitted here states that the $536 million blended credit sale would cost the Treasury $20 million. Cargo preference adds $64 million in cost to that one sale. Congress obviously has shown a greater degree of sensitivity in the last year or so for the plight of those who make their living in agriculture than has the merchant marine.

That is something with which we have to deal. I wonder whether any of you here, first, have a response to what Senator Boschwitz's point is or, second, have a method by which you can once again at least create a modest degree of partnership with agricultural interests by seeing to it that we come up with a formula pursuant to which the actual out-of-pocket cost of the blended credit program to the Federal Government will primarily benefit agriculture, but benefit the merchant marine to say, roughly, the same share, the more traditional programs to which the subsidy are attached.

Mr. MILLS. I am not willing to say offhand that the cost of the blended credit program insofar as the allocation of dollars, out-of-pocket dollars, is as small as respects the farmers as has been alleged.

We are talking about substantial discounting of credit rates, of interest rates. We are talking about undertaking a substantial financial obligation by way of guarantee. I am not critical of that by any means. I think that it is an innovative way and it is a good way to do it.

How do you know, when the Government has to make good on some of those guarantees, what the cost of the program is? How do you allocate the dollar differential of the credit which is extended, but for the extension of the guarantee?

I think, Senator Gorton, that you won't know that up front and that you will find that in many cases, for example, there wouldn't be any extension of credit and, therefore, no sale at all if you for——

Senator GORTON. I think that is clearly true. I don't think anyone can quarrel with that.

Nonetheless, the cost of a credit guarantee is not the equivalent of the total value of the sale by any stretch of the imagination. You have, of course, the transportation cost as a direct out of pocket that will take place under any alternative.

I think Senator Boschwitz is probably exaggerating. The minimum cost is $20 million of that specific sale anyway you define it. The maximum cost is 536 million, assuming that the debt is totally and entirely repudiated.

Mr. MILLS. At the same time, Senator, let me hit the other side of the equation and then I will defer to some of the other panel members.

They were talking about a number of $116 million cost of a blended credit program for U.S.-flag transportation. That is ridiculous, quite frankly. That is just absurd.

We heard earlier a number of $50 million. I doubt, frankly, that the cost of U.S.-flag transportation of the whole blended credit program as configured would be any more than, say, $25 to $28, maybe $30 million. It is far, far less.

So, I think that the proportion gets narrower and narrower and as the U.S.-flag fleet continues to renew itself, continues to face dramatic increases in efficiency and lowering of cost, in no small part that is to the concessions Senator Inouye has referred to in behalf of maritime labor, I think unprecedented across the country, I think that this trend played out fairly will result, without further change, Senator Gorton, in that proportion which you would see and could defend as a reasonable proportion of penetration.

Let me defer to Mr. Calhoon.

Mr. CALHOON. Senator Gorton, I was serving on the President's Export Council in 1981 when our Federal trade representative came in and said, in effect, and I am using my own language: The French have creamed us on a major flour sale to Egypt. We would like to get the support of this council to make a recommendation to the President to set up a PIK program so that we can cream the French.

He explained that the European economic community had been a total food importer. Because of the French position on agricultural subsidies, the common market now was an exporter and was eating up our traditional markets. There was only one farmer on that committee, who was a Mr. Brown from California, the ex-chairman of the American Farm Bureau.

I argued like hell alongside of Mr. Brown to get a recommendation to the President to implement a PIK program, and the cargo preference was discussed at the Export Council.

Lo and behold, when the PIK Program was announced, the Department of Agriculture announced that the cargo preference didn't apply. We all made an appeal to the President, and the President of the United States reversed the Department of Agriculture on the PIK Program.

The difference between the PIK Program and the blended credit program was that in the PIK Program the U.S. Government was paying the grain houses in grain to bring the price down for international sales.

In the blended credit program it is giving a subsidized interest rate and the U.S. Government acting as a banker through the CCC to accomplish the same objective.

Again, the Department of Agriculture says that cargo preference has declined. Whether it guarantees the subsidy or not, in all due deference, the question was asked of the wrong person this morning.

If the question had been asked of Admiral Shear after his default last week, I think the answer would have been loud and clear: the Government's guarantee program is a cost to the taxpayers.

Mr. Chairman, isn't it strange that in this whole dispute there has been no question of the land transportation? We have not checked into the land transportation on grain products.

But a few months ago, we checked into the land transportation on coal exports. We found that moving a ton of coal 350 miles from West Virginia to Hampton Roads cost $16. Moving that ton of coal from Hampton Roads to Rotterdam, 3,000 miles, was $4.00. There is no question on the land transportation.

I would like to say that the opponents of this program, and this is referring directly to the question, have conveniently used the 1982 figures on the transportation cost and 1985 figures on the program.

As you well know, transportation costs in the marine end have taken a tremendous decline since 1981 because in 1981 the window was opened to build modern efficient ships for this purpose.

I also would like to set the record straight that these ships can build foreign. Outside of any other ships, it is the only bulk carrier that has been built since, not World War II, but since World War I for the commercial foreign trade business.

Sure, if you are handling cargo in inefficient ships built for some other trade, the cost will be high. As soon as the Government gave the industry a chance to prove what we could do, we proved it. If they give us more of a chance, we will prove more.

I would like to address one other thing. Senator Boren was testifying. I heard the same point earlier this morning: it is unfair to have a so-called maritime subsidy embedded in the Department of Agriculture budget. While Senator Boren was testifying, I just jotted down the amount of subsidies that the American farmer gets from the various departments. I would like to read the list.

The Bureau of Customs. My understanding is that back in the early 1930s President Roosevelt wanted to help the farmers, and he got a bill passed that provided a substantial part of the custom duties collected by the Bureau of Customs directly to agriculture.

My understanding is that tha money is still flowing to the Department of Agriculture.

They get a subsidy from the Department of Defense. They get a subsidy from the Department of the Interior. They get a subsidy from the Corps of Engineers. They get a massive subsidy from the Internal Revenue Service. They get all the so-called farm subsidies from the Department of Agriculture. They get a subsidy from the Department of Transportation.

They have agents in Brooklyn, Manhattan, the Bronx. If I want to find out the chemical composition of my soil, what fertilizer, lime or chemicals I need, I can go down to the Department of Agriculture and have it tested free.

But if I am ill and want to find out what is wrong with me and I may have a contagious disease, then I must pay my own doctor.

They get a subsidy from the Rural Electrification, and they get a subsidy from the Tennessee Valley Authority, and they think it is unfair to have one little maritime subsidy embedded in their budget.

I would like to submit to the Senate, to this committee, a list of these subsidies and how they apply to the farmer. When I can drive out in the Midwest and see, from where the Sun rises to the sunset, and not see another vehicle on a super highway, paid for 90 percent by Federal funds, and then I have to sit on Canal Road for 1 hour waiting for the traffic to move, I know who is getting the major part of that subsidy.

Mr. Chairman, I assure you those seamen are paying their taxes and are under the most onerous provisions of the IRS because our year does not end December 31. Our year ends at the end of the voyage and we get taxed that money in a disproportionate amount.

Senator GORTON. I was particularly encouraged by Mr. Mills' answer to the effect that if this thing worked out, we would in effect have a sharing of the subsidy approximately that of the Public Law 480 subsidy.

I think, however, from the point of view of the political debate in which we are engaged right now, if we who are interested in the merchant marine can come up with some kind of answer that puts it in that proportion and destroys the kind of argument with which we are faced now, where in connection with Public Law 480 we have a healthy dog with a healthy tail, raise that tail.

Here the agricultural interests say the tail is eating up the dog. If we can prove that that is not true, unless we can come up with some counter in which the proportions are approximately the same, I would have a great deal of confidence not only in the justice of the cause of the merchant marine, but in its prospects for success.

Thank you, Mr. Chairman.

Senator STEVENS. Thank you very much.

Thank you, gentlemen. We appreciate your consideration and the time you have spent with us today. We hope that it will be helpful.

Our next panel is Mr. Paul Green, director, Industry Relations, Millers National Federation; Michael Laserson, president, North American Export Grain Associaton; Don Williams, secretary of the Board of Directors, Union Equity Co-Operative Exchange; W. Glenn Tussey, associate director, National Farm Bureau Federation; and John Baize, director, American Soybean Association.

Mr. Green, shall we proceed in the order I read the names?

Mr. GREEN. We would like to go from this side to that side if it is okay with you, Senator.

Senator STEVENS. Very well, Proceed as you wish.

STATEMENT OF PAUL B. GREEN, INDUSTRY RELATIONS, MILLERS' NATIONAL FEDERATION, AND CHAIRMAN, AD HOC COMMITTEE OF AGRICULTURAL ORGANIZATIONS

Mr. GREEN. Thank you, Mr. Chairman.

Mr. Chairman, my name is Paul Green. I am director of the Industry Relations for Millers' National Federation which is the trade association of the U. S. flour milling industry.

I am appearing before the committee today to discuss a serious impediment to the U.S. ability to export agricultural commodities, that is the expansion, and I emphasize expansion, of cargo preference requirements into the export promotion programs of the USDA.

The list in front of you contains over 90 agriculture-related organizations and corporations that are in support of a legislative clarification and a limit on cargo preference involvement in agricultural programs.

I am the chairman of an ad hoc group of these organizations which are vitally involved in this legislative initiative. To avoid duplication with the others on the panel, I am going to try to be brief in my remarks.

First, I want to start of by expressing the gratitude of the entire agricultural community to Senators Boren and Nickles who spoke today and to the other cosponsors of all the bills that deal with this issue.

The essential points we wish to make on this issue are these:

First, the district court's decision to apply cargo preference to the blended credit program was an unprecedented expansion of the act into commercial competitive programs of the USDA. Up until that decision the act had never been applied to agriculture programs other than purely concessional sales. Let me repeat that. Up until the court decision the Cargo Preference Act had never been applied to agriculture programs other than purely concessional sales.

Blended credit was a trade policy action and was evaluated by its ability to oust subsidizing competitors from a specific market and, therefore, was a competitive program.

Second, the application of cargo preference to these competitive programs negates the competitive effect many times over and forces the Government to cancel the program. For example, you were told that blended credit could be continued by merely paying the additional cost of the U.S.-flag vessels from Government funds.

We want to emphasize that blended credit was a direct loan and loan guarantee program whose only cost to the U.S. Treasury was the interest foregone on approximately 20 percent of the f.o.b. value of the commodity which was covered by a zero interest loan under a GSM-5 program.

Contrary to what you have been toid, applcation of the cargo preference to this program if it had been continued would likely

cost more than three times the entire program's cost in lost interest to the Treasury.

I wish Senator Gorton had been here so that we could discuss that because we do have the figures on that. I think we can explain them.

Indeed, to have used the USDA's resources in such a manner would have been counterproductive to the intent of the blended credit program, would render the program totally cost inefficient and would have reduced the effectiveness of this effort dramatically.

It was for that reason the blended credit program was suspended by USDA immediately following the court decision.

Additionally, the Senate should not be complacent about the threat to the GSM-102 program since the lawyers for the Transportation Institute have requested USDA files on GSM-102 under the Freedom of Information Act. This is the first step in the litigation process.

I need not remind you of the judge's comment that if asked, she would have ruled GSM-102 also would have fallen under the cargo preference provisions.

Agricultural exports are in desperate need of new innovative methods of enhancement as indicated by USDA figures for their crop year which have been revised downward with each new report. Every agricultural bill introduced by Members of the Senate this year has addressed the issue of competitiveness in the world market by proposing new programs for export promotion.

To saddle these programs with extremely expensive U.S.-flag freight differential would kill them before they had a chance to be implemented.

In summary, the loss of blended credit and GSM-102 would leave the U.S. agricultural industry defenseless against dramatic losses due to the strength of the dollar, unfair trade practices by competitors and domestic prices not which have adjusted to world market factors.

The U.S. would be signaling retreat from world markets at exactly the time we should be charging those markets with new aggressive programs.

Lastly, I want to address the fact that this legislation, supported by the ad hoc committee, that is, Senate bill 721 and Senate 664, does not cost the maritime industry a single ton of cargo nor a single job. In fact, the destruction of agricultural export programs which was caused by the suit and the application of the cargo preference destroys jobs in the milling industry, in railroads, barge operations and especially on the docks.

Senators Boschwitz, Boren and Nickles have often pointed out this is a compromise legislation which leaves the $110 million subsidy for U.S.-flag vessels under title I this year and the now estimated $62 million in title II completely and totally untouched.

I will leave the issue of the fact that this money is hidden in the Agriculture Department to our statement in the record and for others on the panel to discuss.

I want to finish by saying the agricultural community is pleased to hear of the administration's support for this clarification and limitation effort. Their understanding and their refusal to bow to

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pressure to support expansion of the cargo preference to the blended credit program will enable us to give the message to every Senator and every Congressman that it is not often they get a chance to broadly benefit agriculture at no cost to the Government, without costing the U.S. merchant marine industry a single pound of cargo.

It is essential that Congress seize this opportunity and make a strong statement that the U.S. will return to competitiveness and world trade by removing this giant impediment.

Thank you, Mr. Chairman.

[The statement follows:]

STATEMENT OF PAUL B. GREEN, CHAIRMAN, AD HOC COMMITTEE OF AGRICULTURAL ORGANIZATIONS

Mr. Chairman, it is a pleasure to appear before the Committee today to discuss a serious impediment to the United States' ability to export agriculture commodities. That is, the expansion of cargo preference requirements into the export promotion programs of the U.S. Department of Agriculture. The enclosed list of over 90 agriculture related organizations and corporations are in support of a legislative clarification and limitation on cargo preference involvement in agriculture programs. I am the chairman of an ad hoc group of these organizations which are vitally involved in the outcome of this legislative process.

It should first be pointed out that this issue was brought to a head by the U.S. District Court ruling which expanded the application of cargo preference to a competitive program managed by USDA called "blended credit" which was in operation for the last two years and which was used to combat the unfair export subsidy programs of our competitors. We want to emphasize that blended credit was a direct loan/loan guarantee program whose only cost to the U.S. Treasury was the interest foregone on the 1/5 of the value of the commodity which was covered by a zero interest direct loan under the GSM 5 program. Contrary to what you may be told, the application of cargo preference to this progrm, if it had been continued, would likely cost more than the entire program's cost in lost interest. Indeed, to have used the USDA's resources in such a manner would have been counterproductive to the intent of the blended credit program and would have reduced the effectiveness of the effort dramatically. It was for that reason the blended credit program was suspended by USDA immediately following the court decision.

The result from cancellation of the blended credit program has been the loss of 3.5 million tons of wheat and flour exports in a year when agriculture is reeling from competitiveness problems you are already aware of. The impact of the loss of those 3.5 million tons is not felt only in the agriculture and agribusiness community. The court's decision destroyed jobs in milling, railroads, barge operations, ports and longshoring while not creating a single job or cargo for the U.S. fleet or the maritime union. The term "fifty percent of nothing is nothing" should not only be the feeling of agriculture, but also of the labor interests in the U.S. who are not subsidized and who should not be penalized by the actions of the maritime interests.

Of even greater interest to the Committee and the country than the loss of blended credit, however, is the threat from the judge's decision that cargo preference would be applied to GSM 102 (the loan guarantee program) and any other export promotion program. It is well known by this Committee that GSM 102 has been the most effective tool we have had to maintain competitiveness in world agriculture markets. You are also aware that since it is a loan guarantee, there is no budget outlay unless the recipient country forfeits on the commercial loan.

Nearly $5 billion in 102 guarantees are authorized for this year and the application of cargo preference to those sales would require a supplemental appropriation for the maritime subsidy of 3 - 4 hundred million dollars. Since such an appropriation is unlikely, cargo preference would spell the end of GSM 102 as well. This committee should not be complacent about the threat to GSM 102 since the lawyers for the Transportation Institute have requested USDA files on GSM 102 under the Freedom of Information Act, the first step in the litigation process. There are no other programs available at the present time to the agriculture industry, which will be helpless against the strength of the dollar and competitor subsidies if this program is also placed under the Act.

Mr. Chairman, agriculture exports are in desperate need of new innovative methods of enhancement as indicated by the USDA figures for this crop year which have been revised downward with each new report. In fact, every agriculture bill introduced in the Senate Agriculture Committee has addressed the issue of competitiveness in world markets by proposing new programs for export promotion. To saddle these new programs with the extreme expense of the U.S. flag freight differential will likely kill them before they have a chance to be implemented.

In summary, the loss of blended credit and GSM 102 will leave the U.S. agriculture industry defenseless against dramatic market losses due to the strength of the dollar, unfair trade practices by competitors and domestic prices which have not adjusted to world market factors. The U.S. will be signalling retreat from world markets at exactly the time we should be charging those markets with new, aggressive programs.

We also wish to address the issue of support for the U.S. maritime industry. The level of support for the maritime industry conveyed by the government is not the crux of this discussion or legislation. Rather it is the method by which that support is gained and at whose expense, that is of interest to agriculture. Coming on top of the $110 million PL 480 cargo preference expenditures which are hidden in the 1985 Title I allocation of the agriculture budget and the billions in other subsidies to the U.S. maritime industry, agriculture does not feel it is in the nation's best interest to further impede competitive agriculture export programs with additional subsidy burdens for the maritime interests. This is especially true when the costs of those subsidies would again be hidden in agriculture budgets and appropriations.

If the maritime industry in the U.S. is important to our national security, there are several much more logical methods than cargo preference for supporting a modern fleet and trained personnel. Agriculture would encourage investigation of the possibility of bringing support for the maritime industry directly under the appropriations process and establishing just what level of support is justified by that national interest.

We cannot stress too strongly that the legislation currently being considered and supported by virtually the entire agriculture community would not take any cargo away from the U.S. maritime industry. It is merely a clarification of the application of cargo preference and returns the situation to the status prior to the court ruling: Namely, that food aid and assistance programs which have allocations to cover the costs of U.S. vessels under PL 480 remain under cargo preference as they have for 31 years, but competitive programs would be exempt from these regulations. To do otherwise will threaten the very existence of those programs. In our opinion, this is not optional legislation if the U.S. is to remain a viable competitor in world agriculture markets.

Mr. Chairman, recent events in agriculture legislation have shown the tenuous state of our agriculture industry. Therefore, Congress should welcome the chance to benefit agriculture's competitiveness without cost to taxpayers while not adversely affecting the subsidies or cargo currently given to the U.S. merchant marine industry.

We encourage the Senate and House to take this opportunity to lift this impediment from our commercial export programs in agriculture so we might be as innovative as possible in restoring competitiveness to U.S. agriculture in world markets.

Senator STEVENS. Mr. Williams.

STATEMENT OF DON WILLIAMS, SECRETARY OF THE BOARD OF DIRECTORS, UNION EQUITY COOPERATIVE EXCHANGE, ON BEHALF OF THE NATIONAL COUNCIL OF FARMER COOPERATIVES

Mr. WILLIAMS. Mr. Chairman, my name is Don Williams. I am a wheat farmer and secretary of the Board of Directors of the Union Equity Cooperative Exchange, which is a farmer-owned, regional cooperative headquartered in Enid, OK.

We are a marketing cooperative serving over 200,000 wheat producers across eight States, including Oklahoma, Texas, New Mexico, Colorado, Kansas, Nebraska, Missouri, and Arkansas.

In addition to over 700 country elevators owned by our members, we have terminal elevators located in Oklahoma, Kansas, Nebraska, Colorado, and Texas. Approximately 90 percent of the grain we handle is directed to the export market.

I appear today on behalf of the National Council of Farmer Cooperatives, which is the central organization of the nation's farmer-owned cooperatives, representing 109 marketing and supply cooperatives, 32 State councils, and the 37 banks of the cooperative farm credit system. Our members in turn represent over 5,000 local cooperatives with a combined membership of nearly 2 million individual farmers.

Mr. Chairman, my farm is in Beaver County in the Oklahoma Panhandle. Hard red winter wheat and milo are the crops in our area and our agricultural economy is dominated by the production and marketing of those commodities.

The wheat price at our local elevator at Perryton, TX, on June 15, 1984 was $3.40 per bushel. On January 15, 1985, it was $3.23; on April 15, $3.05, and last Friday it was $3 per bushel.

Mr. Chairman, that price is below the cost of production and is only 41 percent of the current calculation of parity which stands at $7.21 per bushel for wheat.

Many say the concept of parity is outmoded, but it still represents an approximation of what a fair price for wheat should be if agriculture had maintained an equitable position in the U.S. economy. It still offers a comparison of producer returns which helps explain the desperate plight of U.S. agriculture today.

The service area of Union Equity, as mentioned in the introduction, covers eight States and we can confirm that the extensive press coverage of impending depression in the farm sector is not overstated. Falling land values, farm foreclosures and bankruptcies are epidemic throughout the area and will be much worse by next spring unless we can regain a significant portion of the world grain market we have lost since 1980.

I have attached an exhibit that shows these declines in our share of the world grain market.

WEEKLY EXPORT PERFORMANCE INDICATORS BASED ON EXPORT SALES REPORTING DATA AS OF MARCH 21 OF EACH MARKETING YEAR

[1,000 metric tons, except cotton]

Commodity/Marketing Year	Wheat and products	Corn	Soybeans	Soybean cake and meal	(1,000 running bales) Cotton
Number of weeks	42	25	29	25	33
Outstanding sales:					
5 year average	6,455	12,463	4,038	1,113	2,355
1982–83	6,712	11,101	4,138	914	2,044
1983–84	6,207	11,300	3,535	797	2,480
1984–85	3,461	8,343	2,220	553	1,987
Percent change from previous year	−44	−26	−37	−31	−20

As the 1985 farm program debate develops, the administration is asking farmers to accept the principle of lower, "market clearing" prices as the major means of recapturing lost export markets.

We are told the world market dynamics must set the price for commodities and that U.S. farm programs—and farmers—must be flexible and competitive so we can sell into that market. We have been told that every effort will be made to assist our competitive position by extensive use of the Commodity Credit Corporation GSM–102 and blended credit programs.

Certainly, unless the U.S. Government provides countermeasures to offset the programs of export assistance offered by the governments of our competitor grain exporting nations, the U.S. share of the world grain market will continue its disasterous decline and wheat prices in Perryton, TX, will never recover.

Given that scenario, it is easy to see why the U.S. Court of Appeals decision in February, stating that CCC blended credit commodity shipments are subject to cargo preference requirements, was so devastating to farmers. Not only was there an immediate loss of 3.7 million tons of wheat exports, but the entire GSM–102 program is now threatened.

It is for that reason that we strongly support the legislative proposals by Senators Nickles, Boschwitz and Boren, which would exempt the competitive credit programs of CCC from cargo preference, while leaving undisturbed the right of the U.S. maritime fleet to claim 50 percent of the cargo movement under the concessional sales programs such as those of Public Law 480.

We wish to closely associate with the statement offered by Mr. Green on behalf of the large coalition of agricultural interests.

Mr. Chairman, we appreciate very much the opportunity to appear before the subcommittee in support of S. 721 or other proposals to exempt credit programs of CCC from the requirements of cargo preference.

Senator STEVENS. Mr. Laserson.

STATEMENT OF MYRON LASERSON, PRESIDENT, NORTH AMERICAN EXPORT GRAIN ASSOCIATION

Mr. LASERSON. Mr. Chairman, my name is Myron Laserson, president of the North American Export Grain Association. I am

also executive vice president of the Contintental Grain Co., one of the largest exporters.

The North American Export Grain Association is an organization comprised of 39 of the Nation's leading exporters of U.S. grain. Together, our members account for more than 90 percent of the total grains shipped from the United States. We are, therefore, vitally interested in anything which affects the cost of shipping U.S. grains to our export customers.

I have been fascinated today in hearing what seems to be a dichotomy between the farmers and maritime industry. I don't think what we are talking about is that simplistic. The grain export industry which I represent is an industry that serves or accounts for 20 percent of the work force in the United States, not the 3 percent represented by the U.S. farmers. Anything that hurts that industry is hurting 20 percent of our people.

We appreciate the opportunity to present our statement to this committee, taking the time to hear testimony on this legislation, which so strongly affects U.S. agricultural exports and, therefore, the national well-being.

The grain exporters support the concept of having a strong U.S. shipping industry. We feel that if the shipping industry is of such value to the Nation, however, the Nation should take care of it directly, without appropriating moneys for it from the agricultural budget. The grain exporting industry has always been opposed to having other organizations or industries receive Government subsidies in the form of payments made directly from the budgets prepared for U.S. agriculture.

In the past, cargo preference regulations applied strictly to the Public Law 480 shipments of U.S. grain made to nations which received U.S. assistance. These nations received their agricultural concessions and the U.S. maritime industry received its assistance. The recipient nation had essentially no choice to having the subsidies paid from moneys which were actually allocated as aid to the receipient nation.

Recently under the loan program of 32,500 tons of rice to Africa CCC, the owner of the rice received approximately $100,000 for the rice while the U.S.-flag owners received almost $6 million for the freight that went with the rice. The numbers, I repeat, are $100,000 for the rice, $6 million for the freight.

Senator STEVENS. What did the Government pay the farmers for the rice?

Mr. LASERSON. The Government paid substantially more for the rice under the Loan Program.

Senator STEVENS. Do you have anything to compare that to?

Mr. LASERSON. I don't have that number. I think it is considerably less than the freight we are talking about.

The point I am making is that in order to make this business possible, whoever owns the goods in order to attract the foreign buyer, if U.S. flag has to be used, the bulk of the money that the buyer pays is in freight. I think that is the issue we are talking about. The buyer has something to say about what he is going to pay for it. We live in that kind of world.

At the present time the issue has taken a more serious twist, since a district judge has ruled that cargo preference requirements

applied also to shipments of U.S. grains made under the Department of Agriculture's Blended Credit Program.

We do not question the judge's decision, since she obviously interpreted the existing legislation to mean that Government-sponsored credit programs are concessional sales.

She indicated, furthermore, that if there were cases involving other forms of Government-sponsored credit, she would rule in exactly the same manner. There are indications that the maritime industry may, in fact, now be preparing another case for presentation, involving other forms of Government-sponsored credit.

We hope you can see the paradox, if the Government and the administration decide to help sales of agriculture products, with comparative credit, that would be automatically voided by insistence on use of American flag freight without competitive prices.

As you undoubtedly know, Government-sponsored credit specifies that a recipient nation repay the United States the full amount extended plus some interest charges. Public Law 480 as it is normally used, implies a donation to a recipient nation, or at least does not require payment to the United States for a much longer period.

Public Law 480 implies, therefore, some expenditure of moneys by the United States, whereas credit programs imply only an extension of credit, or, no actual expenditure of moneys. Applying cargo preference to sales made under credit programs would necessitate expenditures by the United States or the added freight costs would increase U.S. prices at a time when such increases are impossible to obtain from buyers.

We feel this is serving no one's interests. There has been no shipment of any grain under the blended credit program since the judge's decision. World competition for grain export sales is much too intense for any nation accepting grain from the United States under what it considers commercial terms to pay the difference between the freight charges for U.S. and foreign flag vessels.

One might say that the only credit buyers who agree to terms that increase their prices are in fact credit buyers who cannot get credit anywhere else and thus increase the risk of nonpayment. The net result of this is one of not paying a subsidy. It is total frustration for all.

The maritime industry will receive no freight benefits from the ruling, no agricultural benefit from sales. Sales of U.S. agricultural goods will fall by 25 to 40 percent creating a further imbalance of trade and eventually forcing reductions in plantings and higher prices to the American consumer.

In the meantime our competitors benefit. They will not only obtain the grain sales, but will likewise obtain the shipping business as well. We find such a practice to be senseless at any time, very dangerous to the U.S. economy at a time when our balance of trade is so seriously prejudiced and our agricultural interests so unhealthy.

We strongly urge this panel to consider aiding the maritime industry in some other fashion. Our Association of Grain Exporters will be happy to serve in any way to find solutions to the maritime problems.

If it is in need and the Nation determines that it deserves assistance, it should obtain moneys freely and clearly through a separate

budget item of its own rather than attempting to obtain it from agriculture in an effort which is now doomed to penalize both industries.

The American farmer is too vital to our economy to be put out of business.

Thank you.

Senator STEVENS. You assert that you believe that payments under the cargo preference would have been added to the cost of your grain in terms of the foreign sales and the foreign purchaser would have to repay the Government cost of that excess subisidy?

Mr. LASERSON. That is how the program would work as it is constructed now.

Senator STEVENS. That has never been the case.

Mr. LASERSON. It has never been the case because blended credit has not called for use of American flag trade.

Senator STEVENS. That is just a bastardization of the program done by the Department of Agriculture. There is nothing in the law that requires that conclusion.

Mr. LASERSON. Either they do that or they will have to use funds that they are trying to spread over the greater amount of sales to do it the other way.

Keep in mind that the sales that we make, the sales that we make are made generally f.o.b.

Senator STEVENS. They were going to take the money from the CCC and they lapsed money last year. They have money left this year to do the complete program. Without any additional moneys they could have continued to fund the credit program under the program envisioned in 1984.

Mr. LASERSON. If they chose to have the foreign buyer pay for American flag freight, it would make the price uncompetitive.

Senator STEVENS. It has never been done before. If they had done that, all of us would have been on their back as fast as you would. You seem to be telling us that the reason you oppose this is because USDA would intentionally choose to make the Blended Credit program unpolitable as part of their drive to destroy cargo preference generally.

I understand several of you want to destroy the cargo preference entirely. I understand that you want us to separate out the money for cargo preference and put it in a different agency buget. I guarantee we will do that for you.

Mr. LASERSON. Mr. Chairman, this is how cargo preference has worked in the past. This is how it works under Public Law 480. This is how it works when we had a maritime agreement with the Soviet Union. It is no accident we assumed it would work that way now.

Senator STEVENS. I see no reason for that conclusion in this program. There was none in my judgment. We will see to it that it won't happen, I can assure you of that.

I cannot see any reason for that conclusion. That would further destroy our attempts at keeping the merchant marine alive.

Mr. LASERSON. This has been our position. I know you have asked that question several times today. I am glad I finally answered it.

Senator STEVENS. I don't think you have answered it. You told me they are liable to do something else to make the program not work. That is not a conclusion that is required by existing law or by Judge Green's opinion.

Mr. Tussey.

STATEMENT OF W. GLENN TUSSEY, ASSOCIATE DIRECTOR, WASHINGTON OFFICE, NATIONAL FARM BUREAU FEDERATION

Mr. TUSSEY. Thank you, Mr. Chairman.

I would like to have my entire statement placed in the record and I will comment on certain points and comment on some of the other statements I have heard today.

First of all, I finally, after having heard the previous panel, know where all the farmers who have left farming have gone. Many of the other panel's representatives say they came from farms, half of them had gone into the merchant marine, because at least two of the four talk about their life as farmers and seem to speak for farmers, which sort of inspired me to speak for the merchant marine.

I don't think I am any more qualified to speak for the merchant marine than they were qualified to speak for the American farmer.

In any event, the previous panel seemed to feel some sort of partnership between the American farmers and the merchant marine. I think they came about that conclusion because they seemed to believe all who receive a subsidy are brothers and, therefore, it should be one big happy family and we should never disagree with each other even though someone may be stepping on the other one.

I don't quite agree with some of the statments made and I would like to go back and talk a bit about why it is so difficult to get some of our American farmers to agree to some of the things that have been said here about the merchant marine.

First of all, we talked a great deal about world trade. I think if you ask most farmers, they would feel maybe the maritime interests are getting a little bit greedy. I hate to use that word because that seems to be pretty harsh, but let me mention a few programs and perhaps others will agree with that.

First of all, it would apply to the Public Law 480 program because it is the largest part as far as agriculture is concerned. I realize it applies to defense and all these other government generated shipments. As far as looking at it from the farmer's viewpoint, first it applied to Public Law 480 only, and then we saw it expand and it was mentioned earlier by the other panelist, Mr. Calhoon, who mentioned the flour sales to Egypt.

The cargo preference law did not require that, but the maritime interest saw to it that they got to the White House and they got the principle of cargo preference applied to the wheat flour sales.

What was the net effect of that? It added 24 to $25 million to the cost. That was a rather innovative thing that got the attention of the European community. There has not been another one and there is not likely to be another one.

What did it gain the maritime interest except one shot, $24 million in cargo preference cost? One shot only. There is not another one and there is not likely to be another one.

I saw the Secretary of Agriculture speak last week and he spoke against any export PIK type programs. So has the Under Secretary Amstutz spoken against export PIK type programs.

We might have had some more innovative programs of that nature had it not been for that. Now we go from there and we found it was extended to blended credit by a court case.

Last year our farmers remembered the Trible and Boggs bill which would put it on commercial sales. If that had been successful, we would have indeed become a residual supplier to the world in grain because everybody is interested in the lowest landed cost.

Nobody is going to come here and buy American grain if they have to suffer some encumbrance such as 5 percent on up to 20 percent moving in American flag vessels.

The law did not require it, but the principle of cargo preference was part of the Soviet sales under the grain and maritime agreement with that country—one-third on American flag vessels, one-third on foreign flag vessels and one-third on Soviet flag vessels.

Nobody will ever know how much of an obstacle that was to us. Certainly the Soviets, it could have been part of the reason they have treated us as a residual supplier. Who knows?

Now, there was mentioned here today about the Jones Act and how it was slightly separate, but since it was brought up, I would like to comment on it. We have an organization in Hawaii, yes.

Senator STEVENS. In Alaska, too.

Mr. TUSSEY. No, we do not have one in Alaska. We don't have an organization there.

Senator STEVENS. No, but we have more land than all of you together that is capable of producing agriculture. The reason we don't produce that is we would have to ship everything we grow to the south 48 states in American-built ships and pay 100 percent cargo preference.

Mr. TUSSEY. You make my point.

Senator STEVENS. The problem is domestic laws, not the farmers.

Mr. TUSSEY. It may be extending that kind of law that brings up such trade distortion. Then we ought to do something about the Jones Act.

What the farmers in Hawaii tell me is that they can buy grain to feed their cattle cheaper from a foreign country than they can from the west coast of the U.S. They can't even buy from their brother farmers in the contiguous States. So they buy foreign grain.

Instead of extending that kind of situation, that distorts trade, maybe we should take some corrective action there. If I can get my colleagues here to help, we will seek legislation to see if we can't change that.

Earlier reference was made to a commission, export commission. There is currently an export commission sitting here in this town from time to time. It is called the Commission on Agricultural Trade and Export Policy. Among their recommendations to improve U.S. exports, one of the recommendations was that the Congress immediately enact legislation to exempt all agricultural exports from existing cargo preference requirements.

That is a good recommendation and it is a recommendation my organization supports and a number of other organizations. We go

beyond the group that is working with Mr. Green. We feel that we need an exemption for agricultural commodities and some of the things Senator Boren said today would justify that.

We don't say this with malice. We feel what Senator Boren said earlier that if you can justify to the Congress a line item in the Defense Department's budget or Maritime Administration's budget, we may even help support such a legislation or such a budget.

On the other hand, I think that the reason that the Defense Department perhaps doesn't want it in their budget is because it displaces something in the Defense Department budget. Perhaps thats the reason the efforts that were made in 1977 failed, Senator Dole tried to get the budget shifted from Agriculture to the Maritime Administration's budget. He was unsuccessful.

Why doesn't maritime want it? Because it would take something away from maritime. If you can make those arguments and those arguments have been made, then why doesn't it displce something from Agriculture's budget by being there. I think that most people would say that it does.

I think as far as humanitarian assistance in the world, during the life of the Cargo Preference Act it has added $1.6 billion to the cost of our food assistance programs.

I served as Deputy U. S. Coordinator of the World Food Conference in 1974. I was trying to think, I can't think of any other nation that has that kind of encumbrance and that kind of cost added to their humanitarian assistance programs.

Senator STEVENS. The reason is that all the nations dealing in the other program own the ships themselves. They are not privately operated.

The Russian ships, the other countries that are operating them, those are Government-owned ships.

Would you like to have us start a program of just Government-owned ships?

Mr. TUSSEY. You may be right, but I am not sure all the food donors in the world own on their ships. Some of them do have mixed economies, but a lot of them don't have mixed economies. A lot have private shipping lines

Senator STEVENS. I don't know of a vessel involved in that kind of program like Public Law 480 that is not subsidized in some way by the Government.

Mr. TUSSEY. I am not arguing the subsidy on it. I am arguing how it is applied. As I said earlier, I don't care how many subsidies you get from the Defense Department for these ships.

As a matter of fact, as indicated, we might support such a subsidy. I am talking about how it is applied and what it does to hungry people. That is $1.6 billion that could have filled some empty stomachs around the world.

I think it is only fair, and I think we got a lot of support recently, the Hunger Committee in the House expressed a great deal of interest in removing this encumbrance from our food assistance program.

Senator STEVENS. Suppose we bought the grain at the cheapest price from the cheapest supplier in the world instead of buy from the domestic farmers, we bought the grain from wherever it was available at the lowest price.

Mr. TUSSEY. If you take off the subsidies, we are willing to do that, the subsidies other countries have. We are not arguing for any export subsidy for the American farmer.

The only reason our organization even goes along with the blended credit program is to offset the subsidies of the EEC. We do not support a general export subsidy on agricultural products.

In regard to the purchase of the American farm products, it is at market price, sometimes below the cost of production, our farmers would argue. They are not getting something over and above the market price.

Senator STEVENS. I agree with most of what you are saying. The only difference is that I believe in subsidizing a domestic maritime industry in the interest of national security. Somehow or other we have to do it.

I think you all, by losing sight of the national goals, maintaining that maritime type capability in our national defense interest, are unfortuntely assuming that you are carrying the burden your own shoulders. It is still taxpayer' money that pays for cargo preference.

Mr. TUSSEY. I understand that, Mr. Chairman. What I am saying, sir, is that I would like to suggest that the maritime industry, that they seek their subsidies in a different way and don't encumber, as I pointed out here, 4 or 5 different programs. Don't encumber the agricultural exports of the country.

If you do, we will fight you, we will continue to fight you just like we fought the trade embargoes. Life will be a lot better for the maritime interests if they will go about seeking a strong maritime in another fashion and we may even support you.

[The statement follows:]

STATEMENT OF W. GLENN TUSSEY, ASSOCIATE DIRECTOR, WASHINGTON OFFICE, AMERICAN FARM BUREAU FEDERATION

The American Farm Bureau Federation is the nation's largest general farm organization with a membership exceeding three million member families in 48 states and Puerto Rico. We appreciate the opportunity to appear before the Merchant Marine Subcommittee to outline our position regarding cargo preference laws as they relate to agricultural exports.

Under the provisions of the U.S. cargo preference law, 50 percent of government generated cargo, such as Food for Peace shipments, must be transported on American flag vessels. Almost invariably the rates on American flag vessels are higher than the going market rate for ocean transportation. Thus, through this captive transportation market, U.S. flag vessels receive a subsidy, which in the case of shipments under PL 480, Title I, is called the ocean freight differential.

Mr. Chairman, I would also like to point out that humanitarian food aid assistance is made more expensive to the American taxpayer by U.S. cargo preference law requirements. Consequently, this added expense curtails the amount of food assistance that can be made available to hungry people. This is obviously true in times of budget restraint as has been the case for a number of years and will likely be the case well into the future.

At the time of the passage of the cargo preference law and the setting up of this subsidy arrangement, it was not envisioned that the ocean freight differential (subsidy) on shipments of government generated cargo under the Food for Peace Program would amount to so much money. Almost invariably, the rates of American flag vessels are higher than the going market rate for ocean transportation. These costs on Title I PL 480 shipments amount on the average to about $25 per ton or roughly about $100 million annually. The added cost for Title II donated food assistance is another $20 million or more annually in additional costs for these U.S. food aid shipments. Thus, humanitarian food aid assistance is made more expensive to the American taxpayer by U.S. cargo preference law requirements.

Mr. Chairman, U.S. food assistance efforts should not be burdened with these extra costs of cargo preference requirements. This was recognized recently when the Commission on Agricultural Trade and Export Policy included among its recommendation of action needed to address the current and future export situation the following recommendation on cargo preference: "The Commission recommends that Congress immediately enact legislation to exempt all agricultural exports from existing cargo preference requirements."

Farm Bureau believes as does the Commission on Agricultural Trade and Export Policy, that now is the time to seek an all-out exemption of agricultural commodities from requirements of the cargo preference law, and we are working toward that end at this time.

Congressman Bereuter, who is a member of the Commission on Agricultural Trade and Export Policy, has introduced H.R. 1760, which amends section 5 of the CCC Charter Act as follows:

> "Export activities of the Corporation under this Act, and activities of the Corporation or the Department of Agriculture to promote the export of agricultural commodities under any other Act, shall not be subject to cargo preference requirements."

Farm Bureau strongly supports H.R. 1760 and its companion bill in the U.S. Senate, S. 930, introduced by Senator Nickles.

Last year there was an effort made in Congress to extend the requirements of the cargo preference law to commercial sales of American agricultural products. If this effort had been successful, agricultural exports from the United States would have become more costly and as Farm Bureau argued in hearings, the United States would have definitely become a residual supplier of American agricultural products. Farm Bureau and other groups joined in defeating the effort to extend cargo preference to commercial sales in the last Congress.

Cargo preference interests, however, have been successful in the courts and recently received a ruling to extend cargo preference requirements to shipments of American farm products under the Blended Export Credit Program. Prior to that ruling, cargo preference law requirements were never applied to shipments under the CCC Export Credit Program.

Robert Delano, President of the American Farm Bureau Federation, in his statement before the Senate Agriculture Committee on March 7, 1985, said, "The Blended Credit Program, which unfortunately has been saddled with the requirements of the cargo preference law, needs to be made a part of new farm legislation with an exemption from cargo preference. As a matter of fact, all agricultural exports should be exempted from cargo preference requirements whether commercial or government assisted. There are other ways of financing a strong merchant marine without harming agricultural exports. We should not reduce our farm exports in our efforts to have a stronger American flag fleet. Farm Bureau will strongly support legislation to exempt exports of agricultural commodities and products from the cargo preference law."

Farm Bureau is not only seeking an exemption for agricultural commodities in new farm legislation but will support freestanding legislation to eliminate cargo preference requirements from agricultural exports.

Senator STEVENS. Thank you very much.
Mr. Baize.

STATEMENT OF JOHN BAIZE, DIRECTOR, WASHINGTON OPERATIONS, AMERICAN SOYBEAN ASSOCIATION

Mr. BAIZE. Thank you, Mr. Chairman, for this opportunity to present testimony on the need to limit the application to U.S. agricultural exports of the current Cargo Preference Act.

I am John Baize, director of Washington Operations of the American Soybean Association [ASA]. ASA is a nonprofit association representing the Nation's soybean farmers.

Exports are the lifeblood of the U.S. soybean industry. Each year we export slightly over half of our soybeans, either as whole beans or as soybean, soyoil, or several other soybean products. The soybean complex has historically been American's largest agricultural foreign exchange earner, with annual export sales in excess of $8 billion.

I am pleased to indicate because of the type of programs we run in our industry of minimal Federal involvement in the subsidy side that the cost annually for the soybean program over this decade has averaged $20 million for the soybean industry compared to other programs.

That is approximately $40 per person for the half million soybean farmers in the country. That is just for the soybean farmers. That is what the cost of the program has been.

We feel that we are being held hostage by the insistence of the Department of Transportation and the maritime industry that cargo preference apply not only to the Food for Peace Act, but also to the blended credit program and to any future export bonus sales programs.

It is clear the Department of Agriculture will not, nor should it, in our view, institute any export sales program to help American farmers if it is required to pay the unreasonable cargo preference differential required by cargo preference.

How can USDA be expected to continue the blended credit program when appliation of cargo preference increases the cost of that program by over 300 percent for wheat, and over 170 percent for soybeans?

How can USDA agree to pay U.S.-flag shipowners over the $1 per bushel over the world shipping rates to transport wheat worth only $3.75 a bushel at the port or, $3 a bushel in Oklahoma?

Blended credit would cost a minimum of $18.4 million. I calculated that at the 8.6 T-bill rate and one-fifth of the $536 million and with payment back in the first year 100 percent; second year, two-thirds; last year, one-third, principal outstanding. I am not talking about any default.

Senator STEVENS. Is that $18 million.

Mr. BAIZE. $18 million.

Senator STEVENS. That is the figure we have.

Mr. BAIZE. An average of about $5.25 per ton exported. I think it is a little bit less than that. Each dollar spent on blended credit will gain over $29 in foreign exchange.

In contrast, applying cargo preference to blended credit will cost—I have heard all kinds of numbers today—I will settle for $50 million, the panel before said it wouldn't be that much, but I calculate if you took the Phoenix ship rate, which is the most efficient method we have, voyages last year——

Senator STEVENS. Both of those ships went into bankruptcy.

Mr. BAIZE. That is correct. But that was the cheapest we had, $46.93 million is what it would cost to carry the tonnage.

In contrast, cargo preference subsidies for blended credit would cost about $50 million, over $18 per ton. We are talking $5.25 a ton as minimum cost for blended credit and $20 a ton for cargo preference. Each dollar on cargo preference will yield less than a dollar on the foreign exchange.

It is clear that applying cargo preference to the blended credit program will not generate cargo in subsidies to U.S.-flag carriers, but it will cost American farmers over $500 million in sales.

If the courts further rule 102 is subject to the program, we will lose another $5 billion in sales. The ruling still won't give the maritime industry one shipload of cargo. It will be 100 percent of the maritime industry's objective and 100 percent of nothing.

I understand, and you are correct Mr. Chairman, the cost is being paid by the Government. We agree totally with that. It is made by the Government. We are talking about over $500 million that is going to be exported under the blended credit program.

For the benefits that are going to be gained, the cost is just too high to continue such a program if you apply cargo preference. We don't oppose the Government subsidizing development of a modern efficient U.S. merchant marine.

We do, however, strongly object to a program being tied to our exports, the cost hidden in USDA's budget, to the tune, and this is last week's estimate, of $155 million in fiscal year 1985.

We believe it is time to free U.S. agriculture from cargo preference by exempting agricultural exports. In turn, any subsidies of the merchant marine should come out of the budget of the Maritime Administration. The authority rests with the Maritime Administration to support the U.S. merchant marine and it should be there.

It should be aimed at allowing U.S.-flag ships to be competitive at world rates. I don't know what it will cost to put enough money in the U.S.-flag fleet so that they can go out and compete head to head in the world.

You mentioned earlier, and I think very correctly, sir, that other countries do subsidize their fleet. Everyone I know of, with the exception of the Liberian and Panamanian flags of convenience, subsidize their vessels primarily by giving them the money to bring down their crew cost, bring down the cost of operation, so that they can go head to head.

We would support that. Then we might get the vessels we need to transport our goods in the world of commerce. We don't believe it should be tied to cargo. Then the Congress would be able to look at the budget. Here is the money. They would know how much the Government is spending for the Maritime Administration, for maintaining the U.S.-flag fleet.

They can do like the agriculture community must do in the House and Senate.

Now, I have a copy of the USDA budget summary on the Public Law 480 Aid Program. It says how much is being spent this year. Not one word in there about money being spent for food aid is for cargo preference. It is not in the budget summary.

The African food money, we don't know how much is being allocated. I got this out of USDA's budget summary sheet.

Since submitting the testimony, I have been provided with some information which should be of interest.

According to the Department of Agriculture, the Foreign Agricultural Service has shipped a total of 548,000 metric tons of Public Law 480 Title II commodities to Ethiopia, Kenya, Mauritania, Mozambique, and the Sudan since August, 1984.

Of that amount, 212,000 metric tons of the commodities have been shipped on foreign flag vessels at an average rate of $40.97 per metric ton, and U.S.-flag vessels have transported 336,500 metric tons of commodities at an average rate of $95.92 per metric ton.

The cost per ton of diverting the title II tonnage to U.S.-flag vessels has averaged $54.95 per ton—134 percent of the foreign flag cost rate and equal to $1.49 per bushel for wheat and/or soybeans.

In total, the cost of applying cargo preference to only the 548,000 million tons of title II shipments handled by USDA has been $18,497,000.

Now, put in perspective, that is enough money to have landed in Sudan or Ethiopia enough wheat to provide a pound a day for a year to 480,000 people. That does not count the cost of diverting to U. S. ships half of the cargoes sent to the African relief area by AID.

Overall, USDA is now projecting it will spend $155 million on ocean freight differentials this year to ship half of the commodities exported under titles I and II of the Public Law 480 program. That is enough money to finance the export of an additional 1.03 million metric tons of wheat or 234,422 metric tons of soybean oil under title I of the program, or to fund a blended credit program over 6 times larger than that canceled by Secretary Block because of Judge Green's decision.

Put another way, the $155 million spent by USDA as a result of cargo preference would pay the cost of enough wheat (811,646 metric tons) landed in the Sudan aboard foreign flag vessels to provide 1 pound of wheat per day for 1 year to 4.9 million people in Africa.

One final point. Last year the cost of diverting title II commodities to U.S.-flag vessels was $13.36 per metric ton for liners and $36.68 per metric ton for nonliner vessels.

So far this year the costs of diversion have averaged $38.30 per ton for liners and $62.44 per ton for nonliners. That is an increase in 1 year of 186 percent for liners and 63 percent for nonliners. That is primarily the commodities going to African food aid.

In the April 10 edition of the "Journal of Commerce" an official of one of the steamship lines intimated his firm would raise the rate even higher if only USDA would allow it.

When we talk about 186 percent increase in the rate, and that is not because foreign flag rates are falling, that is because U.S.-flag rates went up. I have been looking for another term other than price gouging to say you can go up that much in one year, but I haven't found one.

Senator STEVENS. Price gouging may be why we have lost half the capacity in that same year, as you know.

Mr. BAIZE. I agree.

Senator STEVENS. It is a vicious circle.

Mr. BAIZE. It is a vicious circle.

Mr. Tussey was right on one point. No issue has America's farmers as unified as does cargo preference. A lot of people said they don't understand why agriculture is so concerned. It gets down to the bottom line.

It costs about 2 percent buy down on interest to get us into the world market on the blended credit program. Before we can get in we have to subsidize the merchant marine at 150 percent of the world rate.

[The statement follows:]

STATEMENT OF JOHN BAIZE, DIRECTOR, WASHINGTON OPERATIONS, AMERICAN SOYBEAN ASSOCIATION

Thank you, Mr. Chairman, for this opportunity to present testimony on the need to limit the application to U.S. agricultural exports of the current cargo preference act. I am John Baize, Director of Washington Operations of the American Soybean Association (ASA). ASA is a non-profit association representing the nation's soybean farmers.

Exports are the lifeblood of the U.S. soybean industry. Each year we export slightly over half of our soybeans, either as whole beans or as soymeal, soyoil, or several other soybean products. The soybean complex has historically been America's largest agricultural foreign exchange earner, with annual export sales in excess of $8 billion.

Unfortunately, we are seeing our export volume fall in the face of the high-valued dollar, cut-rate pricing by Brazil and Argentina, and the anemic economies of European countries. In such an atmosphere, federal credit programs are vital to allow us to sell our products on the world market. Without that assistance, we can look forward only to continued unprofitable prices and increasing farmer bankruptcies.

Unless the Congress takes action now to exempt agricultural commodities from the huge costs of the cargo preference act, the export assistance we need will not come about. We are being held hostage by the insistence of the Department of Transportation and the maritime industry that cargo preference apply not only to the Food for Peace Act (P.L. 480), but also to the blended credit program and to any future export bonus sales programs. It is clear the Department of Agriculture will not, nor should it, institute any export sales program to help American farmers if it is required to pay the unreasonable cargo preference differentials required by the cargo preference act. How can USDA be expected to continue the blended credit program when the application of cargo preference increases the cost of that program by over 650 percent for wheat and over 370 percent for soybeans? How can USDA agree to pay U.S.-flag shipowners over one dollar per bushel over world shipping rates to transport wheat worth only $3.75 per bushel?

Mr. Chairman, it is clear that applying cargo preference to the blended credit program will not generate cargo and subsidies for U.S.-flag dry bulk carriers. But it will cost American farmers over $500 million in export sales. If the courts further rule the GSM-102 export credit guarantee program subject to cargo preference, U.S. farmers will have to shell out another $5 billion in export sales, and the ruling still won't give the U.S. maritime industry one shipload of cargo. The maritime industry will have gained 100 percent of its objective, but it will be 100 percent of nothing.

Don't get me wrong. American soybean farmers do not oppose the U.S. Government subsidizing the development of a modern, efficient U.S. merchant marine. We do, however, strongly object to the program being tied to our exports, with the costs hidden in USDA's budget to the tune of $109 million in FY 1985. We believe it is time to free U.S. agriculture from cargo preference by exempting agricultural exports, including P.L. 480 shipments, from the act. In turn, any subsidies to the merchant marine should come out of the budget of the Maritime Administration, and should be aimed at allowing the U.S.-flag dry-bulk fleet to charge world shipping rates. Then the Congress would be able to vote directly on subsidies to the fleet, rather than having them hidden in the costs of food aid programs and agricultural export programs. Also, U.S.-flag dry-bulk vessels would be able to carry U.S. exports or the exports of any nation at competitive rates.

ASA also suggests that Congress find out just how much of the money appropriated for African food relief is being spent on total transportation costs and on cargo preference subsidies. Instead of providing food to starving Ethiopians and Sudanese, exactly how much of the $600 million in emergency African food relief is being channeled into the coffers of U.S. shipowners and seafaring workers? With food expected to run out in the Sudanese refugee camps by mid-summer, how many people will go hungry or starve because of cargo preference?

Mr. Chairman, no issue has American farmers as unified as does cargo preference. Just like the four export embargoes agriculture experienced in eight years, cargo preference represents nothing more than a government restriction on our ability to sell our products competitively on the world market. The American Soybean Association has made the exemption of agricultural commodities from cargo preference its highest priority. We will not rest until American farmers are no longer a hostage to the U.S. merchant marine. We ask that the Congress act now to pass Senator Nickles' bill (S. 930), exempting agricultural commodities from cargo preference, to restore sanity to our maritime policy, and to allow U.S. agriculture to go about increasing its exports and reducing the nation's ever-increasing foreign trade deficit.

I will be pleased to answer any questions you may have.

Senator STEVENS. Let me tell you. As you notice, everyone else has gone. There are four Ambassadors from Geneva briefing the Senate.

You all assume that if we transfer this to another account the money would not follow. Under our budget process if we put up a separate account, the money that is currently in the program, Public Law 480 and the others, would automatically be shifted in the budget process to the maritime administration.

That is where it would stay. The same amount of money would be paid out. There would be a decrease in the function line applying to agriculure. Right now you deduct $155 million, put it into the Maritime Administration and it would be standing there in front, that is true.

But it is standing out now. We know what it is. It is in our budget briefing book. It would come out of the program.

What you are saying is if we discontinue it, we could increase the amount of grain we are sending abroad or we could increase the amount money we are spending in the agricultural program, but that is only if you do away with the subsidy altogether, which is your point.

I appreciate the point you are making. If it is going to be continued and put in a separate function, it will decrease the agriculture function portion of it.

Mr. BAIZE. One point I would make as far as my organization is concerned. If we do transfer the cast of cargo preference out of the Public Law 480 budget, USDA budget and put it in the Maritime Administration, we would support such a program to buy down that cost of U.S.-flag vessels.

You can take the money, but as long as it is out of our budget and it is not tied to our cargoes, we want to get a program to compete in the world. We don't want to have to carry the merchant marine with us.

Senator STEVENS. You have made a valid point. I agree with that concept. I supported Senator Dole when he tried. We will try again. I tried last year to put it in the defense budget, put the fund for the support of the maritime subsidy program in the defense budget. We will try again.

Gentlemen, again I don't think those of us who are involved in the Senate who are trying to maintain the Merchant Marine are trying to take any position to the contrary of the agriculture interest of the U.S.

My wife and her brother and my kids have a soybean farm. I know a little bit about your business; not as much as I would like, it is not mine, it is theirs.

The impact of it is that we have no alternative but to try to keep that merchant marine going. We see the annual decimation of the merchant marine fleet. I think it is in your best interest, too, to have that fleet available.

Perhaps in the future foreign vessels won't be available for our Government's needs or for your needs. I think we need to maintain a U.S.-flag fleet. I urge you to think a little bit about that.

I think we did have one constructive suggestion here from Mr. Calhoon. We will look at that in the morning as soon as we get that bill. I think the concept that you are espousing, and I understand your theory, would leave us without a merchant marine by the end of this decade.

We have no viable support program for the merchant marine now as we did in the past. I would hope that as you pursue your own interests and those are a viable part of our economy, that you keep in mind that we have a task, some of us believe just in the interest of national security, to maintain merchant marine capability.

I think it has been a useful day. It may be that we will work out something that we can avoid the current conflict. I must say I decry the judgment of the administration to stop the Blended Credit program. I could see from the beginning that the program would not continue beyond 1985, but the money was already appropriated for this year. There was no real reason to discontinue that, in my judgment.

We could have been arguing about what the fugure would be for 1986, but the 1985 program money is already there.

I disagree with the Secretary on that. He is a good friend, but I disagree.

Do you have anything else you would like to add?

Mr. TUSSEY. Mr. Chairman, thank you for your remarks. I haven't heard among my colleagues a single person that said they wanted to destroy the Merchant Marine.

Some people feel that the only way you can have a merchant marine is to have it on the backs of the farmers. I think it can be separated. Many of the farm groups would support a stronger merchant marine as long as it is not tied so that it is encumbering the programs that we are after, that we need and must have.

Senator STEVENS. That is still less than 5 percent of the U.S. agricultural exports going out on these programs.

Mr. TUSSEY. That may be, Mr. Chairman.

Senator STEVENS. But it is almost 100 percent of the subsidy left for the Merchant Marine.

Mr. TUSSEY. It may be that it is a small amount. It is like the wheat flour sale. It was not a big deal, but it was a very important message to the European community. It could still be a good message for it if it had not got monkeyed up.

We had one deal and no more. What did the merchant marine gain from that? A one-shot deal? There is no more.

Senator STEVENS. Any other comments?

[No response]

Senator STEVENS. It has been a long day, gentlemen, I appreciate your waiting. Thank you very much.

[Whereupon, at 4:45 p.m., the subcommittee adjourned, subject to the call of the Chair.]

ADDITIONAL ARTICLES, LETTERS, AND STATEMENTS

STATEMENT OF HON. RUDY BOSCHWITZ, U.S. SENATOR FROM MINNESOTA

Mr. Chairman, I appreciate this opportunity to once again come before this subcommittee and discuss cargo preference.

As you well know, this is not my first appearance here and will probably not be my last. And, once again my message is simple and straightforward: Cargo preference imposes large and unacceptable costs on the U.S. agricultural economy.

My eloquent and persuasive colleagues from Oklahoma, both of whom have worked with me on this issue for some time, have outlined the problems cargo preference has caused agriculture. Because they have covered that ground so well, I am going to address myself to some of the points raised by the maritime interests as they attempted to defend cargo preference and its relationship with agriculture.

1. "The application of existing cargo preference laws to the Blended Credit program is not an expansion of cargo preference."

Mr. Chairman, the blended credit program was begun in 1982 and cargo preference was not applied to any of the 8.6 million tons of commodities it moved in FY 83 and FY 84. In addition, neither of its parent programs, GSM 102 or GSM 5 have ever had cargo preference apply to them. Also, it is interesting to note that cargo preference never applied to the GR 345 program which was in place from the late 1950s-1972. This subsidy program had the CCC pay cash to commercial shippers allowing them to compete in world markets.

So, only if you want to argue that the past two and one-half years of shipments under the program don't count, can you then argue there has been no expansion of cargo preference.

However, even more interesting in the "it's not an expansion" argument is that Judge Green's decision intimated that both GSM 102 and GSM 5 should have cargo preference apply, and the Transportation Institute has apparently already begun the process of filing suit on those two programs. As I am sure you recall, it was T.I. who filed the last suit. So I suppose that if they are successful in court again, then the expansion of cargo preference to these programs won't be called an expansion either.

2. "Attacking cargo preference will penalize the merchant marine without yielding any benefit to the U.S. farmer." In addition, cargo preference laws "do not harm this nation's exports."

Mr. Chairman, sometimes you read or hear statements that by their sheer inaccuracy and gall take your breath for a second or two. This one certainly fits into that category.

First, the court decision has terminated a $536 million wheat sale to Morocco, Tunisia, Iraq, and Egypt. Losing this 3.6 million metric ton wheat sale means in real terms a lost opportunity to sell off 10 percent of the current government controlled carryover surplus wheat stocks. Stocks that have, and will now continue to, depress the prices received by our farmers.

Second, in PL480, the $155 million being spent this fiscal year on cargo preference means that much less is available for spending on the commodities themselves.

Third, if cargo preference is further expanded to cover GSM 102—which is clearly the intent of the maritime lobby—the nation's farmers will lose a program that currently costs the government less than $2.5 million per year in administrative costs and in return leverages $5 billion worth of sales through its loan guarantees. They would lose this program because the cargo preference requirement would cost over $600 million per year. That's a 240-fold increase, that like the bug-spray Raid, kills the program dead.

It is facts like these that give me so much trouble with the two statements made by 32 maritime groups that "To say that cargo preference requirements are hurting U.S. farmers is flatly wrong," and secondly, "It is unrealistic in today's budget crisis for farm groups to expect that reductions in cargo preference would mean that federal dollars spent on that program would become available for addition to the much larger existing farm subsidy program." To me these statements are at best completely ridiculous, and at worst show a breadth and depth of ignorance of agriculture and its programs as to defy description.

3. Blended Credit can continue even with cargo preference applied to it because, "the U.S. government pays the cost of any freight differential, the delivered price to the foreign purchaser does not increase, nor is there any cost to the American farmer."

Mr. Chairman, anyone who argues that USDA can easily budget the cost of the freight differential clearly has little or no understanding of the tremendous budget pressures and cuts that Agriculture is being asked to take. The $536 million Blended credit sale would have cost the Treasury $20 million. But cargo preference adds $64 million to the cost of that one sale. Clearly USDA doesn't have the funds for this, and OMB objects to any supplementals, so the program is killed.

And for next year it only gets worse. The White House Leadership plan calls for a $4 billion cut in FY86, which includes the phasing out of the REA loan program for $32 million in savings—which Mr. Chairman is only one-half of the agriculture funds the Maritime lobby want for one sale. The termination of the crop insurance program saves an additional $100 million, perhaps they want that too.

Even in the best case—a budget freeze—agriculture is looking at $200 million in cuts, and with the Merchant Marine lobby holding out their hands for another couple of hundred million—or much more if they push to have the GSM 102 included in their slice of agriculture's pie—it's clear the agriculture community will have a tough time retaining any effective export promotion programs.

So let's not try to kid ourselves that the merchant marine lobby isn't fully responsible for the termination of this program. And let's also not kid ourselves that this same lobby is not currently trying to terminate the GSM 102 program by finding a friendly court to rule in their favor that cargo preference applies to it too.

That's why I believe it's time to change the law and make it clear that cargo preference doesn't apply to blended credit or its parent programs. That's what S. 721 and S. 664 are designed to do, and that's what agricultural groups around the country are committed to see accomplished.

4. Watering down cargo preference will "do nothing to help American farmers, and will only penalize our U.S.-flag maritime fleet—a fleet which is now being modernized to bring down rates and lower transportation costs."

Mr. Chairman, the fact that the differential shrunk from FY81 is certainly a welcome sign. For if the differential was at the level it was in 1981, the cargo preference costs of the blended credit wheat sale that was just cancelled would have cost $93 million, and cargo preference's application to GSM 102 would cost $881 million.

But the fact is, the differential is what killed the blended credit program, the differential is what killed the Export PIK program in 1983, and the differential is what will kill GSM 102 if the maritime lobby is successful in getting cargo preference applied to it.

So if the merchant marine continues to be happy with carrying 50 percent of nothing, then their present course is right on target.

However, it is disconcerting to note that the differential is on the rise over last year. Through the month of April in Title I of PL480, the differential has crept back up to $35.68 as an overall average from $32.59 in 1984. While in Title II, the liner differential has gone from $13.36 last year to $38.30 this year, and in non-liners it has been even worse—from $36.38 in 1984 to $62.44 so far this year.

In addition, the overall cost in the PL480 program is projected to go from a $96.3 million level in FY84 to $155 million in FY85. So, while I suppose you could try and hang your hat on the argument that things could be worse, I, and the rest of American agriculture are not overly comforted.

Mr. Chairman, let me try to conclude. I do not claim to be an expert on maritime policy, and will not sit here and try and make specific suggestions about how to revitalize the merchant marine. However, I do consider myself somewhat an expert on agricultural policy and have introduced an 8-year farm bill that rejects agricultural programs that haven't worked and provides what I believe is an innovative approach to the current problems we are facing in agriculture. My good friend Senator Boren is joining me in this effort, hopefully others will as well.

In conjunction with this, I am perfectly willing to admit that many agricultural policies have not worked in the past. Unfortunately, each and every time I have

spoken in this committee on the cargo preference issue, I have never seen the maritime interests show a similar willingness to admit that their programs aren't working. That makes every effort to come to some type of an agreement on a policy that benefits both agriculture and the merchant marine very difficult.

However, I remain open to concrete, let me repeat, concrete suggestions or proposals. Because as it now stands agriculture, and this country's farmers are paying the piper, while the merchant marine collects the booty.

STATEMENT OF JIM MILLER, SECRETARY-TREASURER, NATIONAL ASSOCIATION OF WHEAT GROWERS

Mr. Chairman and members of the Subcommittee, the National Association of Wheat Growers appreciates this opportunity to present its views on legislation which has been introduced to clarify the application of U.S. cargo preference law to competitive export sales programs operated by the U.S. Department of Agriculture. I am Jim Miller, a wheat producer from Garfield, Washington, and secretary-treasurer of the NAWG.

The National Association of Wheat Growers fully supports the coalition testimony which has been presented today, and we are eager to work with this subcommittee and others to resolve the damaging dispute over the scope of U.S. vessel preference requirements and their application to export assistance programs operated by the Agriculture Department.

Mr. Chairman, the U.S. grain industry is in a serious state of atrophy. Low prices, shrinking markets and fierce foreign competition are causing this once viable industry to decline. Since the 1970's, the wheat industry has become very export-dependent, and its future still lies in the ability to competitively price and sell more than 60 percent of each year's production to overseas buyers. And in my region, the Pacific Northwest, more than 80 percent of our production is exported.

Developing countries account for more than one-half of world trade; the world recession and the prevalence of a "sellers market" require that the U.S. must be able to offer sales assistance programs that can enable us to service the demand of these countries. The "blended credit" program operated by USDA was one such program which was tailored to meet importer financing needs and also counter sales terms offered by our competitors.

Wheat growers are most affected by the application of cargo preference to blended credits. Approximately 3.7 million tons of wheat exports are affected by this dispute, representing 9.4 percent of our expected export tonnage valued at $536 million. The suspension of the blended credit program in February has allowed the French to take over the wheat market in Morocco with special credit terms. We calculate that 1.2 million tons in sales will be lost in this market alone by the end of this marketing year, May 31. The expansion of U.S. vessel preferences to guaranteed credits (GSM 102) would affect an additional 25 percent of our export sales, or about $1.4 billion of U.S. wheat trade.

As you can see, credit arrangements are vital to our export performance, and we are confident that these and other competitive sales assistance programs will be needed in the future. The high dollar, reduced purchasing power of importing nations, and stiff competition from other nations make it exceedingly difficult for the U.S. to make export sales. If U.S.-flag preferences are extended to these programs—a requirement that none of our competitors make of their buyers—the days the United States will remain a major grain exporter will be numbered.

We view legislation introduced by senators Boschwitz, Boren, Nichols and others as representing the middle ground in clarifying the application of U.S.-flag shipping requirements to export sales programs. It is carefully drafted to keep intact vessel preferences for concessional sales programs such as those operated under Public Law 480, while assuring that competitive sales programs will not be encumbered by a U.S.-flag mandate.

Right now; farmers, banks, and other agri-industries are undergoing severe financial stress. Net farm income has declined 35 percent to Depression-era levels, and agriculture's infrastructure, which has provided the United States a competitive edge through the exercise of our comparative production advantage in the world market, is withering under economic strain.

In the case of wheat, export sales for future delivery have collapsed 64.5 percent below a year ago, and the prospect exists that substantial export tonnage will be lost to our competitors in the 1985–86 marketing season. This decline will be accompanied by reduced U.S. foreign trade earnings, job losses from rural areas all the way to the ports, and general economic instability.

Mr. Chairman, we want to work with this subcommittee, the Congress and maritime interests to assure that sales programs offered by the USDA can be operated in a manner that will keep our farm products competitive. We believe this to be in the interest of the maritime industry as well as farmers and the national economy.

I want to thank you for this chance to appear before the subcommittee. I will be pleased to respond to your questions at the appropriate time.

STATEMENT OF THOMAS D. WILCOX, EXECUTIVE DIRECTOR AND GENERAL COUNSEL, NATIONAL ASSOCIATION OF STEVEDORES

The National Association of Stevedores (NAS) is a nationwide membership trade organization for the stevedore and marine terminal industry. NAS member companies do business on all four of the nation's seacoasts, in the States of Alaska and Hawaii, the Commonwealth of Puerto Rico, and major inland ports. NAS member companies directly employ tens of thousands of longshore workers to load and unload ships calling at this country's ports in both international and domestic commerce. The stevedor-marine terminal industry is an indispensable service to America's international trade. The U.S. economy and national defense depend upon a viable and healthy port system—that system includes stevedore-marine terminal companies, and the workers they employ.

On February 21, 1985 U.S. District Court Judge Green ruled that the Blended Credit Program of the Commodity Credit Corporation (CCC) of the Department of Agriculture is subject to the U.S. Cargo Preference Law [46 USC Sec. 1241(b)] and, accordingly, 50% of all cargoes financed and shipped under that program must be shipped in U.S.-flag vessels. *Transportation Institute et. al.* v. *Dole et. al.*, No. 83-3048 (D.D.C. Feb. 22, 1985). The Blended Credit Program involves two CCC credit mechanisms, GSM-5 and GSM-102. After finding that the Cargo Preference Law applies to the GSM-5 credit program, Judge Green indicated that if the GSM-102 credit program were before the Court, that program also would be subject to the Cargo Preference Law.

We understand that as a result of this decision, the ocean freight rate differential that the Department of Agriculture (USDA) would be required to pay to U.S.-flag vessel owners is $25 to $35 per ton. USDA had planned to finance in 1985 $536 million of agricultural products under the Blended Credit Program, or 3.6 million tons, of which 3,489,655 tons would have been bulk wheat, and 125,000 tons would have been bagged flour. Rather than pay the extra ocean freight, USDA has cancelled the 1985 Blended Credit Program.

The cancellation of the Blended Credit Program will cost the stevedoring industry at least $6 million in lost revenue. Approximately $2,093,000 would be lost by bulk grain stevedores, and approximately $3,125,000 would be lost by stevedores who handle bagged agricultural products. There also will be a substantial loss of revenue of terminal charges normally assessed for the handling of bagged commodities.

Should the GSM-102 program be made subject to the Cargo Preference Law, additional agricultural exports would become uncompetitive in the world market, and the financial loss to the stevedoring industry could be enormous. The annual amount of agricultural products financed under GSM-102 is approximately $5 billion.

Until now the NAS has taken no position on any cargo preference bill primarily because this industry is flag blind. NAS members load or discharge whatever cargo moves regardless of the flag of the vessel. Until now there was no conclusive evidence that the Cargo Preference Law caused a decline in the amount of cargo shipped. In this case the Cargo Preference Law has caused a measurable reduction of cargo and loss of revenue to NAS members—here, $6 million, with a potential for a much greater future loss depending on what happens in the GSM-102 situation.

The NAS opposes the cancellation of the Blended Credit Program, and the application of the Cargo Preference Law to it because these actions demonstrably have impeded the orderly flow of this nation's international commerce to the detriment of the national economic interest, including NAS member companies.

The NAS requests that either the Cargo Preference Law or the CCC Charter should be amended to exempt agricultural shipments financed by the CCC under programs such as GSM-5 and GSM-102 from the application of the Cargo Preference Law. In short, the NAS urges the Congress to overturn the District Court's decision. We believe that two bills currently under consideration in the House, H.R. 1466 and H.R. 1517, represent the best approach to reaching this narrow goal.

The NAS expresses no opinion as to any further amendments, revisions or restrictions to the Cargo Preference Law at this time.

ASSOCIATION OF AMERICAN RAILROADS,
May 17, 1985.

Hon. TED STEVENS,
Chairman, Subcommittee on Merchant Marine, Committee on Commerce, Science and Transportation, U.S. Senate, Washington, DC.

DEAR MR. CHAIRMAN: On May 6, 1985, the Subcommittee on Merchant Marine held a hearing on S. 664, a bill which would proscribe application of the "cargo preference laws" to certain export activities of the Commodity Credit Corporation and the Department of Agriculture. The Association of American Railroads did not testify at the hearing, but would now like to present the views of the Nation's railroads on S. 664.

Introduction of S. 664 was in direct response to a decision of the U.S. District Court for the District of Columbia earlier this year in which the court ruled that "cargo preference" was required for the Blended Credit Program of the Department of Agriculture. According to the Department of Agriculture, application of cargo preference requirements to the Blended Credit Program would increase the cost of U.S. grain shipped to foreign buyers by 15 to 30 percent, rendering the U.S. grain noncompetitive.

Transportation of grain constitutes approximately 10 percent of the traffic of the Nation's railroads. Industrywide, 43 percent of that grain traffic is destined for export. Broader application of the cargo preference restrictions will hamper grain exports.

Therefore, the Association of American Railroads supports enactment of S. 664.

Sincerely,

WILLIAM H. DEMPSEY, *President.*

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